

The copyright © of this thesis belongs to its rightful author and/or other copyright owner. Copies can be accessed and downloaded for non-commercial or learning purposes without any charge and permission. The thesis cannot be reproduced or quoted as a whole without the permission from its rightful owner. No alteration or changes in format is allowed without permission from its rightful owner.



**PERCEPTIONS OF MALAYSIAN TAX PROFESSIONALS ON
VOLUNTARY DISCLOSURE PROGRAMME PARTICIPATION**

BY



**MASTER OF SCIENCE
(INTERNATIONAL ACCOUNTING)
UNIVERSITI UTARA MALAYSIA
AUGUST 2018**

**PERCEPTIONS OF MALAYSIAN TAX PROFESSIONALS ON VOLUNTARY
DISCLOSURE PROGRAMME PARTICIPATION**

By

BALAMURUGAN A/L SINAPAYAN



UUM
Universiti Utara Malaysia

**Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
in Partial Fulfilment of the Requirement for the Degree Master of Science
(International Accounting)**



PERAKUAN KERJA KERTAS PENYELIDIKAN
(*Certification of Research Paper*)

Saya, mengaku bertandatangan, memperakukan bahawa
(*I, the undersigned, certified that*)

BALAMURUGAN A/L SINAPAYAN (821423)

Calon untuk Ijazah Sarjana

(*Candidate for the degree of*)

MASTER OF SCIENCE (INTERNATIONAL ACCOUNTING)

telah mengemukakan kertas penyelidikan yang bertajuk
(*has presented his/her research paper of the following title*)

**PERCEPTIONS OF MALAYSIAN TAX PROFESSIONALS ON VOLUNTARY DISCLOSURE
PROGRAMME PARTICIPATION**

Seperti yang tercatat di muka surat tajuk dan kulit kertas penyelidikan
(*as it appears on the title page and front cover of the research paper*)

Bahawa kertas penyelidikan tersebut boleh diterima dari segi bentuk serta kandungan dan meliputi bidang ilmu
dengan memuaskan.

(*that the research paper acceptable in the form and content and that a satisfactory knowledge of the field is covered
by the research paper*).

Nama Penyelia : **DR. NORAZA MAT UDIN**
(*Name of Supervisor*)

Tandatangan : 
(*Signature*)

Tarikh : **3/9/18**
(*Date*)

PERMISSION TO USE

In presenting this project paper in partial fulfilment of the requirements for a Post Graduate degree from the Universiti Utara Malaysia (UUM), I agree that the Library of this University may make it freely available for inspection. I further agree that permission for copying of this project paper in any manner, in whole or in part, for scholarly purpose may be granted by my supervisor or, in her absence, by the Dean of Othman Yeop Abdullah Graduate School of Business where I did my project paper. It is understood that any copying or publication or use of this project paper parts of it for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to the UUM in any scholarly use which may be made of any material in my project paper.

Request for permission to copy or to make other use of materials in this project paper, in whole or in part should be addressed to:

Dean of Othman Yeop Abdullah Graduate School of Business
Universiti Utara Malaysia
06010 UUM Sintok
Kedah Darul Aman



Universiti Utara Malaysia

ABSTRACT

While the tax administrators continuously implement more efficient enforcement activities to enhance tax compliance, voluntary disclosure programmes (VDP) or tax amnesties can also be a good tax policy to reduce the tax gap. There is ample evidence that this program can work wonders if executed carefully. In addition, taxpayer participation in this programme is also an essential aspect to ensure its successful implementation. In the Malaysian context, VDP was launched in year 2015 and 2016 as part of the budget recalibration process to boost revenue and improve compliance. The effectiveness of the program is yet to be unresolved but statistics shows that taxpayers' responses were far below expectation. In spite of the poor responses to VDP and high reliance of taxpayers on tax professionals, this study attempts to explore tax professionals' perceptions on reasons contributing to tax payers' participation in Malaysian VDP. A survey approach is used to obtain information from tax practitioners ($n=135$) practicing in big four tax firms in Johor Bahru and Kuala Lumpur using purposive sampling method. The finding of this study reveals that all the reasons i.e. size of penalty reduction, fear of detection and punishment, risk of further audit and promotion efforts by IRBM are contributing to the VDP participation although the level of agreement is differs. Malaysian tax professionals perceives the size of penalty reduction as the strongest influential reason contributing to VDP participation while the risk of further audit was ranked as the second most important reason. Meanwhile, fear of detection and punishment and promotion efforts by IRBM were ranked as third and fourth reasons respectively. This study could be considered as the first attempt in understanding VDP implementation in Malaysia and the findings are expected to spark for future studies in this area.

Keywords: voluntary disclosure programme, tax amnesty, participation, tax professional, tax compliance.

ABSTRAK

Walaupun pentadbir cukai terus melaksanakan aktiviti penguatkuasaan yang lebih cekap untuk meningkatkan pematuhan cukai, program pengemukaan sukarela (VDP) atau pengampunan cukai juga boleh menjadi dasar cukai yang baik untuk mengurangkan jurang cukai. Terdapat bukti yang cukup bahawa program ini dapat berfungsi dengan baik jika dilaksanakan dengan teliti. Di samping itu, penyertaan pembayar cukai dalam program ini juga merupakan aspek penting untuk memastikan pelaksanaannya berjaya. Dalam konteks Malaysia, VDP dilancarkan pada tahun 2015 dan 2016 sebagai sebahagian daripada proses pengubahsuaian belanjawan untuk meningkatkan pendapatan dan meningkatkan pematuhan. Keberkesanan program ini belum dapat dinilai tetapi statistik menunjukkan bahawa penyertaan pembayar cukai jauh di bawah jangkaan. Walaupun kurang respon terhadap VDP dan kebergantungan para pembayar cukai yang tinggi terhadap profesional cukai, kajian ini cuba meneroka persepsi para profesional cukai mengenai sebab-sebab yang menyumbang kepada penyertaan pembayar cukai dalam VDP Malaysia. Pendekatan kaji selidik digunakan untuk mendapatkan maklumat daripada profesional cukai ($n=135$) daripada empat firma cukai besar di Johor Bahru dan Kuala Lumpur menggunakan kaedah pensampelan bertujuan. Penemuan kajian ini mendedahkan bahawa semua sebab iaitu saiz pengurangan penalti, bimbang kepada pengesanan dan hukuman, risiko pengauditan selanjutnya dan usaha promosi oleh LHDNM menyumbang kepada penyertaan VDP walaupun tahap persetujuan berbeza. Para profesional cukai Malaysia merasakan saiz pengurangan penalti sebagai sebab paling kuat yang menyumbang kepada penyertaan VDP sementara risiko pengauditan selanjutnya disenaraikan sebagai sebab kedua paling penting. Sementara itu, bimbang kepada pengesanan dan hukuman dan usaha promosi oleh LHDNM menduduki tempat ketiga dan keempat. Kajian ini boleh dianggap sebagai percubaan pertama dalam memahami pelaksanaan VDP di Malaysia dan penemuannya dijangka mencetuskan kajian masa depan dalam bidang ini.

Kata kunci: program pendedahan sukarela, pengampunan cukai, penyertaan, profesional cukai, pematuhan cukai

ACKNOWLEDGEMENT

All the praises and thanks to GOD for giving me the tenacity and perseverance to undertake this research study and complete it satisfactorily. I also wish to convey my deepest appreciation and offer my most sincere gratitude to my supervisor Dr. Noraza Mat Udin for her unwavering support, guidance and words of encouragement throughout the progress of this dissertation. My appreciation is also dedicated to my superior in Inland Revenue Board of Malaysia (IRBM), Madam Mary Lorette Pereira for her invaluable inputs to the study. I would also like to acknowledge my friend, Mr Yoburaj Thomas for his continuous support in my research works. Finally, I am deeply thankful to my family and lecturers who helped and inspired me in completing this project.

Last but not least, my sincere gratitude goes to IRBM and Universiti Utara Malaysia (UUM) for giving me the opportunity to pursue my study under 'IRBM-UUM Master Programme'. May this research be beneficial to all.

TABLE OF CONTENTS

PERMISSION TO USE.....	ii
ABSTRACT.....	iii
ABSTRAK.....	iv
ACKNOWLEDGEMENT.....	v
TABLE OF CONTENTS.....	vi
LIST OF TABLES.....	viii
LIST OF FIGURES.....	ix
LIST OF ABBREVIATIONS.....	x

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study.....	1
1.2 Problem Statement.....	6
1.3 Research Question.....	8
1.4 Research Objective.....	8
1.5 Significance of the Study.....	9
1.6 Scope of Study.....	9
1.7 Definition of Key Terms.....	10
1.8 Organisation of the Thesis.....	10

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction.....	12
2.2 Characteristics of Tax Amnesty.....	13
2.3 Reasons for Tax Amnesty Implementation.....	15
2.4 The Effects of Tax Amnesty Implementation.....	18
2.4.1 Revenue Effects.....	18
2.4.2 Compliance Effects.....	20
2.5 Reasons to Participate in VDP.....	23
2.6 Tax Professionals' Perceptions.....	27
2.7 Summary.....	28

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction.....	29
3.2 Conceptual Framework.....	29
3.3 Operational Definition.....	30
3.4 Research Design	30
3.5 Questionnaire Design.....	32
3.6 Pretesting and Pilot Testing	34
3.7 Population of the Study.....	35
3.7.1 The Eligibility Criteria.....	36
3.8 Sampling Method.....	36
3.9 Data Collection.....	37
3.10 Data Analysis Technique.....	37
3.11 Summary.....	38

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1	Introduction.....	39
4.2	Response Rate.....	39
4.3	Respondents Profile.....	40
4.4	Data Screening.....	41
4.5	Normality Assessment.....	42
	4.5.1 Statistical Analysis of Normality - Skewness And Kurtosis.....	42
	4.5.2 Graphical Analysis of Normality: Histogram and Q-QPlots.....	44
4.6	Reliability Analysis.....	46
4.7	Validity Test.....	47
4.8	Descriptive Analysis.....	49
	4.8.1 Size of Penalty Reduction.....	50
	4.8.2 Fear of Detection and Punishment.....	50
	4.8.3 Risk of Further Audit.....	51
	4.8.4 Promotion Efforts by IRBM.....	52
4.9	Rank of the Reasons Contributing to VDP Participation.....	53
4.10	Summary.....	54

CHAPTER FIVE: DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1	Introduction.....	55
5.2	Discussions of Findings.....	55
5.3	Theoretical Implications of the Study.....	59
5.4	Practical Implications of the Study.....	60
5.5	Limitations of the Study	60
5.6	Recommendations for Future Research.....	61
5.7	Conclusion.....	62

REFERENCES.....	63
------------------------	-----------

APPENDIX.....	69
----------------------	-----------

LIST OF TABLES

Table 1.1	: Voluntary Disclosure Rates under Tax Audit Framework	3
Table 1.2	: Penalty Rates under Special VDP Implemented in Year 2015 and 2016	4
Table 1.3	: Number of Audit Cases Settled by IRBM and Applicable Penalty Rates	5
Table 3.1	: Questions for four reasons	33
Table 3.2	: Pilot Study Reliability Test Results	35
Table 4.1	: Response Rate	40
Table 4.2	: Respondents Profile	41
Table 4.3	: Summary of Skewness and Kurtosis Value	43
Table 4.4	: Reliability Analysis of Variables ($n= 135$)	46
Table 4.5	: Factor Analysis ($n= 135$)	48
Table 4.6	: Rotated Component Matrix ($n= 135$)	49
Table 4.7	: Size of Penalty Reduction($n= 135$)	50
Table 4.8	: Fear of Detection ($n= 135$)	51
Table 4.9	: Risk of Further Audit ($n= 135$)	52
Table 4.10	: Promotion Efforts by IRBM($n= 135$)	53
Table 4.11	: Ranking of Reasons	53
Table 5.1	: Voluntary Disclosure Penalty Rates in Singapore	56

LIST OF FIGURES

Figure 1.1	: The Compliance Pyramid & Voluntary Disclosure	2
Figure 3.1	: Proposed Conceptual Framework for Reasons Contribute to VDP Participation	29
Figure 4.1	: Overview of Data Analysis	39
Figure 4.2	: Histogram with Bell Curve and Normal Q-Q Plot for Size of Penalty Reduction	44
Figure 4.3	: Histogram with Bell Curve and Normal Q-Q Plot for Fear of Detection and Punishment	44
Figure 4.4	: Histogram with Bell Curve and Normal Q-Q Plot for Risk of Further Audit	45
Figure 4.5	: Histogram with Bell Curve and Normal Q-Q Plot for Promotion Efforts by IRBM	45

LIST OF ABBREVIATIONS

GST	Goods and Services Tax
IRBM	Inland Revenue Board of Malaysia
OECD	Organizations for Economic Co-operation Developments
SPSS	Statistical Package for Social Sciences
VDP	Voluntary Disclosure Programme
UUM	Universiti Utara Malaysia



CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Voluntary disclosure programme (VDP) is an opportunity offered to a taxpayer to rectify error or omissions in past tax returns with partial or full waiver of financial penalties and criminal prosecutions. It is considered as part of compliance strategy used by tax administrators which allows previously non-compliant tax payers to regularise their tax affairs subject to terms specified in the programme (OECD, 2015).

Currently, there are 47 countries that offer VDP (OECD, 2015). For instances, Canada, which adopts self-reporting system like Malaysia (self-assessment system), has implemented VDP for many years that allows taxpayers to disclose errors and omission without subject to penalty or prosecution. Similarly, Australia has launched VDP in 2014 with the title 'Project DO IT' that is a never repeated 'one-time' offer to declare unreported income and assets. Recently, Indonesian government has implemented tax amnesty policy from July 2016 to March 2017 which was reported as one of the most successful tax amnesty with at least 745,000 taxpayers participated and declaring assets more than USD330 billion (Suroyo & Setiaji, 2017). Similarly, 2018 tax amnesty scheme in Pakistan also reported that nearly 5,000 people filed voluntary disclosure returns as at 30 June 2018 whereby the government has received more than USD821 million from the scheme.

Although the scope of the programme in each country may vary in term of coverage and incentives, the existence of VDP in many countries strongly indicates that it is an important tax compliance initiative with minimum cost to tax administrators. Apart from raising revenue quickly in short term, a well-planned VDP can help to increase the tax base by identifying taxpayers in the middle section of the compliance pyramid as illustrated in figure 1.1. The middle section taxpayers were those initially non-compliant with all or part of their tax obligations but willing to participate in VDP. However, their decision to participate depends entirely on the design of the VDP implemented in each country.

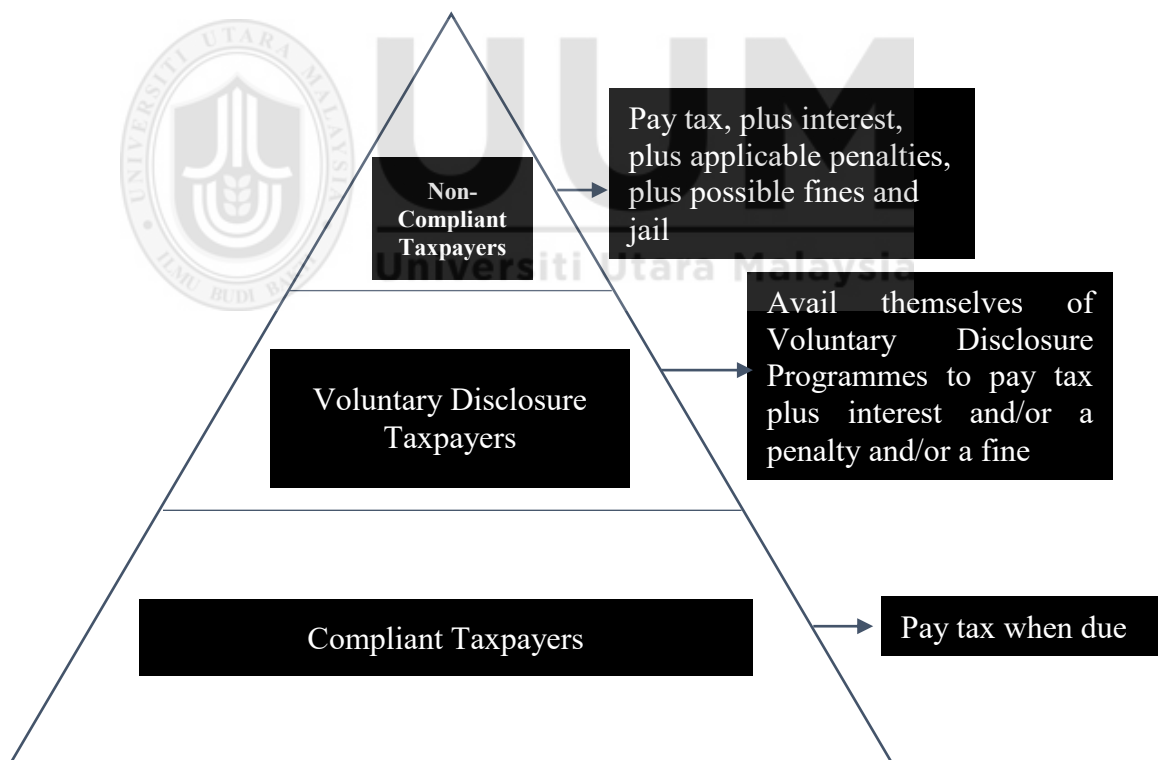


Figure 1.1
The Compliance Pyramid & Voluntary Disclosure
Source: OECD (2015)

In Malaysia, Inland Revenue Board of Malaysia (IRBM) has always rewards taxpayers who opt to self-correct their tax affairs before commencement of audit or investigation activities by offering reduced penalty rate which range from 10% - 35% as compared to audit/investigation penalty rates of 45% - 300%. The rates vary depending on the period of making voluntary disclosures from the tax return due date as demonstrated in Table 1.1.

Table 1.1
Voluntary Disclosure Rates under Tax Audit Framework

Period of making voluntary disclosures	Tax Audit	Tax Audit
	Framework prior to 01 st May 2017	Framework effective from 1 st May 2017
60 days after the tax return due date.	10%	10%
More than 60 days but not later than 6 months from the tax return due date.	15.5%	15.5%
6 months to 1 year	20%	35%
1 year to 3 years	25%	35%
3 years and above.	30%	35%
Voluntary disclosure after taxpayer has been informed but before commencement of audit.	35%	Voluntary disclosure is no longer allowed

Source: Tax Audit Framework 2015 and 2017 issued by IRBM on 01 February 2015 and 01 May 2017 respectively.

On top of permanent voluntary disclosures stipulated in tax audit framework, IRBM has implemented special VDP, also known as tax amnesty programme, in year 2015 and 2016. The programme is applicable to direct taxes administered by the IRBM which includes corporate tax, petroleum tax, individual tax, stamp duty and real property gains tax. The key elements of the programme are summarised in Table 1.2.

It shows that 15% of penalty was imposed for voluntary disclosure cases which are quite attractive as compared to 35% stipulated in tax audit framework. Other penalty rates of 25% - 45% applicable for issues discovered by IRBM during audit or investigation.

Table 1.2

Penalty Rates under Special VDP Implemented in Year 2015 & 2016

Penalty Regime	Reduced penalty rates (VDP)
Incorrect returns :	15%
Voluntary Disclosure	
Incorrect returns :	
Discovery by IRBM during	25% - Full Payment
an audit/investigation	35% - Payment in 6 Instalments
	45% - More than 6 Instalments
Tax in arrears	Waiver for increase in tax if full settlement is
Source: Operation Guideline No. 1/2015 & No.1/2016 issued by IRB on 05 March 2015 and 10 February 2016 respectively.	

Participation of tax payers in VDP signals the effectiveness and success of VDP implementation. In Malaysia, there are no precise data to measure taxpayer's responses or participation towards the tax amnesty programme implemented for the year 2015 and 2016. However, the following data as presented in Table 1.3 has been obtained from IRBM Tax Operation Department which shows the number of audit cases that had been settled and the relevant penalty rates.

Table 1.3

Number of Audit Cases Settled by IRBM and Applicable Penalty Rates

Penalty Rate	Number of Cases (2015)		Number of Cases (2016)	
	Field Audit	Desk Audit	Field Audit	Desk Audit
15%	78	54	268	196
25%	25,702	557	32,888	844
35%	4,501	468	6,591	393
45%	22,861	7,836	12,648	5,112

Source: Statistical Data by Tax Operation Department, Inland Revenue Board of Malaysia

The data in Table 1.3 shows that audit cases settled with 15% penalty rate reflects those taxpayers participated in VDP and other penalty rates applicable to audit findings. Based on the table and figures above, only 132 taxpayers (cases) came forward to declare incorrect returns voluntarily in year 2015 whereas in the same period a total of 61,925 cases of incorrect returns were discovered by IRBM audit officers. In fact, the 61,925 taxpayers who have been audited by IRBM had not chosen to participate in VDP before the commencement of audit. Similarly, in year 2016, only 464 taxpayer (cases) have participated in voluntary disclosure programme compared to 58,476 of audit cases settled. Furthermore, IRBM also revealed that the total non-submission of tax return for the year 2016 is 236,992 and non-payment of tax is RM9,465,995,836.09 as at 1 January 2017. Hence, it is a clear evidence that those non-compliant taxpayers have failed to take advantage of special VDP implemented in 2015 and 2016.

According to Farrar and Hausserman (2016), VDP generate relatively little revenue in part because of poor participation from taxpayers. Thus, the understanding on

taxpayer attitudes towards participating in VDP is essential. However, the majority of studies conducted on VDP or tax amnesty, only concentrate on the effects of the policy and the reasons for taxpayer participation is not stated except for Alm and Back (1991) which emphasize that probabilities of detection and punishment are important motives to taxpayer participation. Therefore, much remains to be studied on the reasons for taxpayer participation in VDP.

Although the VDP is applicable to all groups of taxpayers, arguably it is more relevant to business group taxpayers (self-employed and company) as they have greater opportunities to under report income and submitting incorrect returns. This is evident by most of the Malaysian tax compliance studies which focused on business taxpayers as their non-compliance is more significant (see for example Ramasamy, Thurasamy, Haron & Ang, 2003; Sia, Salleh, Sambasuvan & Kasipillai, 2008).

1.2 Problem Statement

Although IRBM consistently launches various operations and enforcement activities to enhance tax compliance, a recent report showed that there had been a consistent 20% tax gap in Malaysia since 2015 (Syed Nokman, 2017). The IRB Chief was reported to state that tax collection in 2016 was RM114 billion instead of the targeted RM136.8 billion while in 2015, the IRB received RM121 billion out of its projected RM145.2 billion. The tax gap in the revenue collected by IRBM in the year 2015 and 2016 can be related to participation in VDP implemented in these two years. The IRBM launched VDP with the objective of increasing revenue by offering special incentive to taxpayers to rectify errors during submission of their returns. This effort

is also part of budget recalibration process and improving existing compliance (IRBM, 2016).

Although actual participation in VDP is not available, the data related to the number of audit cases settled by IRBM and applicable penalty rates indicates that the number of taxpayers participated in VDP is far lower than the cases in which incorrect returns were discovered during audit processes. This situation has raised concerns on the acceptance and participation of taxpayers to VDP offered by IRBM. Indeed, signals that participation of taxpayers in special VDP implemented by IRBM is very poor.

However, it does not mean that VDP is not relevant in the context of Malaysia as there are consistent demands for the programme. For example, Datuk NK Jasani, partner of Grant Thornton Malaysia, proposed to the government that instead of depending on higher penalties to help boost revenue, the government should again consider tax amnesty (Grant Thornton, 2017). The growing demand shows that VDP can be used as an effective compliance strategy to reduce the reported tax gap in Malaysia if the design of the programme is well accepted among taxpayers especially those in the middle section of the compliance triangle as shown in Figure 1.1. Thus, poor participation of VDP is a significant practical gap that need to be studied for a successful VDP implementation in the future.

Currently, there is no published research conducted on VDP in Malaysia. Overseas studies on VDP or tax amnesty mainly focused on the effects of VDP to government revenue (Alm & Beck, 1991; Hasseldine, 1998; Fisher, Goddeeris & Young (1989);

Luitel & Sobel, 2007; Schmittiel, 2015) and future compliance level (Alm & Beck, 1993; Christian, Gupta & Young, 2002; Rechberger, Hartner, Kirchler & Hammerle, 2010; Torgler, Schaltegger & Schaffner, 2003). There is no published studies that examine the participation of taxpayers in the VDP. In fact, there is dearth of information on the reasons for taxpayer reluctant to participate in this programme which they should take the opportunity given to reduce tax burden. Thus, it is essential to investigate the possible reasons for taxpayers' participation in VDP. Due to high reliance of business taxpayers on tax professionals, this study examine poor VDP participation from the perspective of tax professionals in Malaysia.

1.3 Research Question

The research question to be addressed in this study is as follows:

Do tax professionals perceive size of penalty reduction, fear of detection and punishment, risk of further audit and promotion efforts by IRBM as the reasons that contribute to VDP participation among taxpayers in Malaysia?

1.4 Research Objective

This study investigates on the Malaysian taxpayers' participation in VDP from the perspective of tax professionals. Thus, to answer the research question, this study sets the objective as follows:

To examine perceptions of tax professionals whether size of penalty reduction, fear of detection and punishment, risk of further audit and promotion efforts by IRBM are the reasons that contribute to VDP participation among taxpayers in Malaysia.

1.5 Significance of the Study

The outcome of this exploratory study redound to the benefit of tax administrators, particularly IRBM, considering that a well-planned VDP could decrease the tax gap without incurring additional administration cost. Besides that, the study also highlights the drawbacks of existing VDP and recommendations provided by respondents to improve the effectiveness of VDP. Undoubtedly, this feedback will be an important information source for IRBM to evaluate the previous VDP and incorporate tax professionals' opinion into the future versions of VDP.

On the other hand, the study will contribute to the literature on VDP or tax amnesty. Currently, there is no published academic study on VDP in Malaysia. Thus, this study is exploratory in nature to gain better understanding of Malaysian VDP especially the reasons that motivating taxpayer's participation. A greater understanding of VDP will encourage future research relating to VDP in Malaysia. On top of that, this study also contributes to tax compliance literature by identifying the reasons or motives for taxpayers to self-correct their tax affairs.

1.6 Scope of Study

This study seeks perceptions of tax professionals on reasons for low taxpayer's participation in special VDP introduced by IRBM in year 2015 and 2016. Tax professionals are chosen from big four tax firms, namely, KPMG, Ernst and Young, Pricewaterhouse Coopers and Deloitte, located in Johor Bahru and Kuala Lumpur. Their opinions on four reasons contributing to VDP participation, namely, size of

penalty reduction, fear of detection and punishment, risk of further audit and promotional efforts by IRBM were sought using questionnaire.

1.7 Definition of Key Terms

Voluntary Disclosure Programmes (VDP) and tax amnesties are relatively low-cost compliance initiatives in which taxpayers are given the opportunity to self-correct errors and omissions in past tax returns (Farrar & Hausserman, 2016). Duhaime's Law Dictionary defines voluntary disclosure as *“a tax amnesty program whereby a delinquent taxpayer discloses information not previously reported to a tax agency, and by doing so voluntarily, avoids liability to penalty or prosecution normally associated with prior non-disclosure”* (Duhaime, 2000). Given that both terms of VDP and tax amnesty are synonyms, it will be used interchangeably in this study.

1.8 Organisation of the Thesis

This thesis is organized into five chapters. The introductory part in Chapter One discusses the concept of VDP and its implementation in Malaysia, followed by the problem statement, research question, research objective, significance and scope of this study. In Chapter Two, discussions include definition of VDP and past literature pertaining to voluntary disclosure issues. Chapter Three discusses the research methodology applied in this study including research design, survey method, data collection process, target population, sample selection and data analysis. The final part of this chapter outlines the questionnaire design and pilot testing before the actual data collection. Chapter Four presents the data analysis and results, and subsequently provides discussion on the findings for the research question. Chapter Five covers the

conclusion and recommendations derived from the outcomes of this study. Finally, the implications of this study, future research directions and some recommendations to IRBM on enhancing VDP implementation in Malaysia are presented.



CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

As highlighted in Chapter 1, there is not much published empirical studies on VDP especially in Malaysia. However, there are quite a number of studies conducted on tax amnesties which could be considered as synonymous with VDP. This is held by Farrar and Hausserman (2016) of which they clearly stated that both tax amnesties and VDP are compliance initiatives with minimum cost in which tax payers are given the opportunity for self-correction on past tax returns. They mentioned that the only difference between tax amnesties and VDP is a tax amnesty tends to be a one-time opportunity for self-correction which has an expiry date whereas VDP are permanent and ongoing. However, there are short term VDP with an expiry dates, implemented in many countries, including Malaysia. Therefore, there are no major differences on tax amnesty and VDP. For example, Malaysian 2016 VDP has been termed as tax amnesty by Ernst and Young in their article titled *“Tax Amnesty: Reduction and Waiver of Tax Penalties”* (Ernst & Young, 2016). In view of the foregoing, for the purpose of this study, these two terms will be used interchangeably.

Given that both VDP and tax amnesties are voluntary compliance programmes, existing literature on tax amnesty are very relevant to this study and will be reviewed in this chapter. Firstly, this chapter will establish the characteristics of tax amnesty, then the reasons for tax amnesty implementation, followed by the effects of tax amnesty implementation and reasons to participate in tax amnesty.

2.2 Characteristics of Tax Amnesty

It is important to understand the characteristics of a tax amnesty. Luitel and Sobel (2007) explains that the three most important characteristics of tax amnesty are firstly, tax amnesty is short term in nature and lasts from two months to one year. Secondly, participation in a tax amnesty is voluntary whereby tax payers (evaders) may decide not to participate. Thirdly, an amnesty programme only waives the penalties or interest related to tax evasion but do not remit the principal amount of tax that is due.

Previously, Franzoni (1996) has classified amnesty into three types as follows:

- Return amnesty: the opportunity given to taxpayers to correct their tax return with reduced penalty but not immune from enforcement activities (audit and investigation) of tax administrators;
- Investigation amnesty: an offer not to investigate the actual amount of tax payable if taxpayers take part in amnesty programme; and
- Prosecution amnesty: nullify legal liability of taxpayer whereby tax administration will suspend their prosecution powers.

Among the three types, return amnesty has been extensively used by many countries including Malaysia. However, tax administrators are constantly formulating new types of amnesty programme in combination of return, investigation and prosecution amnesty.

According to Alm and Rath (1998), the eligibility criteria for tax amnesty is essential and usually tax administrators will not only targeting potential tax payers who are not on the roles but also targeting those who are already on the tax role. This is to ensure

that existing tax payers are paying the correct amount of tax due to government. Further, tax amnesty can be applied to all types of taxes including corporate and individual income tax, sales and use tax and property tax (Alm & Rath, 1998).

Marchese (2014) said that tax amnesties should be granted only to taxpayers who are not yet investigated such as taxpayers who failed to file returns on time or those submit incorrect returns by understating the revenue or overstating of expenses. Similarly, Friedman and Palmer (2010) in his review on Canada VDP has highlighted that amnesty disclosures will not be considered to be voluntary if a taxpayer was selected for audit or investigation activities. Nevertheless, some countries has loosen this rules whereby amnesties are applicable to all taxpayer including those under audit and investigation activities. For example, Malaysian VDP in 2015 and 2016 offered discounted penalty rate to both voluntary disclosures and audit or investigation settlements (EY, 2016). Sanchez Villalba (2017) warns that forgiving evaders already known as delinquents may lead to negative compliance in long term as the act suggest that the tax authority does not consider tax evasion a serious offence.

On the other hand, the timing of amnesty implementation is a crucial part in determining the effectiveness of the programme. This is because the duration of the programme, extension period (if any) and the frequency of the programme will clearly affect the results i.e. the outcome of the tax amnesty programme offered by the tax authority (Mikesell, 1986).

2.3 Reasons for Tax Amnesty Implementation

One of the main rationales given by tax administrators (governments) to justify their tax amnesty programme is to generate additional revenue besides increasing future tax base by identifying tax evaders. However, literatures on tax amnesty studies revealed that both economic and political reasons can influence the decision to introduce a tax amnesty or VDP.

Parle and Hirlinger (1986) is one of the earliest study that addressing the reasons that lead to tax amnesty implementation. Based on the analysis of 13 state amnesties in United States, the study proposes the following reasons for the occurrence of tax amnesties;

- To collect outstanding taxes with minimum cost which otherwise become uncollectable due to limited enforcement activities;
- To promote compliance level among citizens; and
- To bring individuals outside the tax rolls and thus, not easily detectable to the revenue system.

Later, Chugh (1987) via his survey studies among tax commissioners who has participated in tax amnesty implementation has derived another three reasons for offering tax amnesty. Firstly, to provide an opportunity to correct their mistakes or evasion before stricter laws take effect. Secondly, to create awareness of tax evasion among public and thirdly, to raise revenue in short term to close the budget deficit.

Reasons for implementing tax amnesty programme has also been investigated by Dubin, Graetz and Wilde (1992) of which they reported purely economic factors that influence decision to run a tax amnesty programme for the period of 1980 to 1988. They found that the most important reason for implementing tax amnesty is the expected yield while fiscal stress is not an important factor.

Mahestyanti, Juanda and Anggraeni (2018) stated that the government of Indonesia chose to introduce tax amnesty programme in 2016 because Indonesia has low tax compliance and the need to source additional revenue for infrastructure development. However, as documented by Indonesian Finance Ministry said that the main purpose of the programme is to bring back local residents asset invested in foreign countries to boost economic growth. In other words, illicit financial flows are the major target for tax amnesty programme by the Government.

In relation to the timing of tax amnesty implementation, in the United States (US), Borgne (2006) reported that probability of declaring amnesties are higher during fiscal stress periods whereas the probability is lower during a year when elections are going to be held. In other words, his study revealed that tax amnesty programmes will not be implemented if elections are around the corner. This is because law abiding voters (i.e. those paying correct amount of taxes on time) will perceive tax amnesty programme as 'unfair' since the programme is rewarding the tax evaders with a lower effective tax rate (Rechberger et.al., 2010). The political determinant of tax amnesty implementation has been further evidenced by Saracoglu and Caskurlu (2011) in his study in Turkey. He has reported that tax amnesties in Turkey have put in power

because of political reasons and tax amnesty following each election does support his findings.

Schmittdiel (2015) suggest that when parts of the populations feel more or less guilty about evading taxes after reports are due, tax authorities would always like to offer a voluntary disclosure programme. However, “guilt” feeling among populations is very subjective and the most difficult part to describe or measure. The study did not elaborate further on how tax authorities measure this subjective feeling among populations. According to Baer and Borgne (2008), tax amnesties also sometimes offered in periods of economic crisis, when there is a fear that tax payers may be unable to meet their various tax liabilities, when there are major currency devaluations, or when there is a change of government. Another justification quoted by Marchese (2014) for implementing tax amnesty programme is when special circumstances arises in a country such as major political regime change, drastic changes in currency or significant reforms in tax law. This major upheavals may motivate unwanted breaches of law or mistakes by taxpayers. Thus, tax amnesty will be introduced to overcome the said problems that may arise.

In addition to the above reasons, International Monetary Fund (IMF) found that inefficiency of tax administrations also can lead to frequent tax amnesty programmes as documented by Baer and Borgne (2008). They outlined some of the weaknesses in tax authorities that can give rise to tax amnesties as follows:

- Lack of a fair interest and penalty regime whereas the penalty or interest rates are too high or low notwithstanding the severity of tax avoidance;

- Limited ability of the tax administration to obtain tax payer related information (e.g. access to third party or bank information);
- Non-existence of a well-designed and fair instalment payment system;
- Absence of tax administration power to enforce collections (e.g. seize bank accounts and physical assets) and reliance by the tax administration on the courts;
- Lack of tax administration powers to “write off” what considers to be uncollectible tax debts; and
- Abuse of the appeals system to postpone payment of tax arrears. Tax payers easily interrupt collection enforcement actions via recourse to the appeals system.

2.4 The Effects of Tax Amnesty Implementation

Most of the published empirical research studies conducted on tax amnesty have addressed two important effects of an amnesty programme which is the impact on tax revenue and future tax compliance.

2.4.1 Revenue Effects

The ability of amnesty programmes to generate additional revenues is an essential part to be examined. Fisher et.al. (1989) pointed out that amnesty seems to generate immediate revenue efficiently but long term revenue gains are likely to be small because amnesties are not particularly effective in identifying all tax evaders. Christian et.al (2002) concluded that although on aggregate an estimated 5,500 taxpayers were added to Michigan’s tax rolls but the additional tax revenue raised

from these taxpayers are negligible which is about 0.1% from total revenue collected. Besides that, Hasseldine (1998) has reviewed 43 tax amnesty programmes in the US and concluded that amnesties only contribute around 0.008% to 2% of total tax revenues.

Wang and Hsieh (2015) has examined the effect of tax amnesty on tax revenue and revealed that during the initial assessment period of the tax amnesty plan, revenue hugely increased. However, tax revenue stably declined when the assessment period ends and ultimately converged on a fixed value. This is because the probability that taxpayers are exempt from fines and successfully evade taxes increase after an amnesty. In other words, secondary tax evasion is often accompanied by tax amnesty. Subsequent amnesties generate less revenues compared to initial tax amnesty programmes (Luitel & Sobel, 2007).

Similarly, the key result of the study conducted by Schmitt diel (2015) states that government revenue not only rises with surprise VDP, but even when such a programme is anticipated. Their analysis agreed with the existing literature that anticipated amnesty programme initially lead to more tax evasion but estimate a positive relationship with revenue growth. The reason for this is that offering an anticipated programme allows the tax payers to adjust their decisions on withholding taxes to their relevant guilt parameters once they are known. This yields more revenue than a situation where taxpayers have to base their decisions on their expectations of guilt parameters.

Contrary to the above findings, Alm and Beck (1993) and Alm, Martines and Wallace (2009) concluded that tax amnesties programme has no effect on revenue. In their empirical work with field data, Almand Beck (1993) analyzed the long-run effects of the Coroloda tax amnesty programme for the period of January 1982 to December 1989. Their time-series analysis indicates that long term effect of amnesty on gross revenue collection is unclear and probably nil or negative.

Since most of the evidence on relationship between amnesties and revenue collection is examined in the United State, Alm, Martines and Wallace (2009) using a range of structural and time series methods, concluded that Russian amnesties unlikely to have had significant positive or negative impacts on the revenues of the Russian Federation.

Based on the above studies, the revenue generating effects of tax amnesties are uncertain depending on the designation of the programme. However, most of the studies agreed that first time amnesties are able to yield a considerable amount of revenue compared to repeated amnesty programmes.

2.4.2 Compliance Effects

Increasing compliance is another ultimate objective of tax amnesty programme. Theoretically, tax amnesties should be able to identify tax offenders to settle their liabilities and increase their compliance level in future. However, literature reviews

have addressed that compliance is not necessarily increasing following an amnesty due to various reasons.

One of the initial reviews on tax amnesty by Leonard and Zeckhauser (1987) suggested that tax amnesty can increase future compliance by lowering its cost (i.e. no longer necessary to evade or to hide past bad behavior). However, subsequent studies showed that amnesties can have a negative impact on compliances. Alm, McKee and Beck (1990) concluded that tax compliances decrease following a tax amnesty programme. However, they recommended that the compliance can be improved with an increase after tax amnesty enforcement such as frequent auditing and harsher tax penalties after tax amnesty.

In agreement with Alm et.al. (1990), Saracoglu (2011) based on his study on tax amnesty in Turkey, foresees that the main problem caused by tax amnesty is tax compliance prevention because honest tax payers started to see that tax amnesties as awards for tax dodgers and this significantly damages their tax compliance. The result is driven by a very weak and inefficient tax audit system in Turkey. Mattiello (2005) has stated that an amnesty which applied with a high commitment of not recurring will lead to a better compliance level. The study also revealed that tax compliance will increase in short term when tax defaulters come forward to declare unreported income. These new taxpayers will be monitored by tax administrators for the following years in order to ensure they are fully complied. However, the study concludes compliance level will be decreased or lower in long term due to few justifications. Firstly, recurring of tax amnesties may indicate that tax administrators

are failed to collect taxes via enforcement activities such as auditing and penalties. The low auditing possibilities and expectation of amnesties might reduce the compliance level. Secondly, unfairness feeling of honest taxpayers towards tax amnesty can reduce their compliance level in the long run.

Langenmay (2015) studied on voluntary disclosure programme in the United State also confirming the theoretical result that the introduction of voluntary disclosure leads to more tax evasion. The result was based on evaluating the implications of 2009 VDP. They have analyzed the deposits of the United State residents in an aggregate of offshore banking centers for the year 2006, 2009 and 2012 to determine the effect of amnesties (before, during and after 2009 voluntary disclosure programme). Conversely, the empirical time-series analysis conducted by Alm and Beck (1993) indicates that tax amnesty seems unlikely to have significant negative effects on long run compliance behavior. The outcome is based on amnesty programme in the state of Corolada whereby amnesty itself was of such small size that had no effect on compliance decisions. Post amnesty compliance level severely depends on how the amnesty programmes are designed and the frequency of such programmes. A one-time amnesty programme followed by harsher enforcement activities will positively contribute to overall compliance level. Further, information disclosed by participants can be used to increase future tax base.

To conclude, there are different opinion and evidences on long term compliances of tax amnesty. Most of the studies believes that a well-planned one time amnesty can improve compliances in short and long run.

2.5 Reasons to Participate in VDP

Despite evidences that tax amnesties are moderately effective tax revenue collection strategies (Fisher et.al. 1989: Alm and Beck, 1993), not all amnesty programmes raised considerable tax revenue due to poor responses from tax payers (tax evaders). Short-term revenues crucially dependence on whether a significant number of taxpayers chose to take part in amnesties or not. However, majority of studies on tax amnesty did not state the reasons for taxpayer participation.

The first reason for an individual to participate in amnesty programme is the fear of detection and punishment (Alm, 1990). In this regard, an efficient tax audit and investigation system of tax administrators will contribute to higher participation towards tax amnesty as tax payers are afraid of getting audited. In view of that, creating a strong impression that enforcement measures are being enhanced is an important factor to encourage amnesty participation. Fisher et.al. (1989) also classified amnesty participant characteristics as *“those who perceive a large increase in the likelihood that past evasion will be detected or penalties to be imposed”*.

However, contrary to the above findings, as argued by Wang and Hsieh (2015) and Bayer, Oberhofer and Winner (2014), detection probability and post amnesty enforcement level have no relation to amnesty participation. Wang and Hsieh (2015) study showed that tax evaders are willing to participate in tax amnesty plans despite the probability of the exogenous variables i.e. ‘penalty rate’ and ‘probability of tax evasion activities discovered’ being low. Bayer et.al. (2014) also showed that a

forward looking tax payer, who discounts future taxes and fines, might take up an amnesty even if the enforcement parameters remain unchanged.

Another reason of amnesty participation is strategic delinquency as documented by Ross and Buckwalter (2013). They estimated that the reason account for between 4.3 and 16.5 percent of the United State tax amnesty. Taxpayer delaying tax payment until an amnesty programme declared in order to realize some interest gains. The basis for this act is differences between the individually faced interest rate and the interest rate during tax amnesty.

The size of penalty reduction or incentives provided under an amnesty is another reason for taxpayers to come forward voluntarily during tax amnesty period. If the total tax liability with penalty (i.e. cost of settlement) is higher than the value of the asset, the taxpayer might not be motivated to participate in VDP or amnesty programmes (OECD, 2015). Size of penalty also appeared to be an influential motivation in taxpayer's amnesty decision-making reported by Farrar and Hausserman (2016). Similarly, Mahestyanti, Juanda and Anggraeni (2018) has concluded that tax amnesty participation in Indonesia is highest during the first three months where the tariff rates offered was the lowest. This indicates that taxpayers prefer to participate when tax amnesty comes with the lowest rate.

Fear of further audit may discourage tax payers from the voluntary disclosures. OECD (2015) mentioned that many taxpayers concern that a disclosure will give rise to further audit either as an immediate response to the disclosure or it will increase the

risk of future audit and investigation. Thus, OECD advised that tax administrators must make public that disclosures during tax amnesties or VDP will not affect future compliance activity. Marchese (2014) stressed that auditing powers should be limited or excluded in order to boost participation in tax amnesties. The study also mentioned that amnesties should assuage taxpayer fears that further audit will be conducted if a specific tax base is disclosed.

Guilt cognitions also a reason for the decision to participate in tax amnesty programmes. The impact of guilt on tax amnesty disclosure decision has been examined by Farrar et al. (2014). The likelihood of a tax payer making an amnesty disclosure is greatest when the individual assumes personal responsibility for the transgression, can justify the transgression, and can foresee the negative consequences arising from the transgression. In fact, personal responsibilities played an important role to ensure that tax payers come forward to admit their mistake.

Marketing campaign played an important role as a medium to informing taxpayers the available opportunity. The importance of marketing or publicity of tax amnesty programme has been documented by Mikesell (1984); Mikesell (1986); Parle and Hirlinger (1986); Ross and Buckwalter (2013) and Ross (2012). Publication efforts by tax administrators are believed to be an essential part to make an amnesty a successful programme. Parle and Hirlinger (1986) explained that publicity should provide a positive view of the programme with clear goals of its implementation and must contain a specific appeal to the targeted participants.

Another reason for taxpayer participation in tax amnesty is international opportunities. Good economic growth with liberalization policies and opening of international trade also provide motivation for firms to participate in amnesties. The reason is that, they can benefit more in the new environment if they are legal and have a clean tax record (Marchese, 2014). Without a clean tax record, it is very difficult to access to credit and export market. Therefore, amnesty programmes will attract those tax evaders who wish to expand their business internationally. Similarly, Bose and Jetter (2012) also emphasize that if there is a positive and significant impact of globalization to taxpayer income, tax amnesty will be successful because tax amnesty will be an opportunity to legalise their business activities.

It should be noted that not everyone who files for an amnesty is a tax evader. Even honest taxpayers may fear having made mistakes on their return unintentionally and want to avoid being audited. In these cases, amnesties can appeal to honest tax payers (Marchese, 2014). These amnesty disclosures or VDP is an opportunity for compliant taxpayers to correct any unintentional omission or errors in their previous submissions.

For the purpose of this study, besides the literature review, all factors related to taxpayer participation have been discussed with tax experts i.e. senior IRBM officers and tax practitioners. Based on the discussion, the most relevant factors to Malaysian taxation system and environment have been chosen to be studied in detail. The factors are size of penalty reduction, fear of detection and punishment, risk of further audit and promotion efforts by IRBM.

2.6 Tax Professionals' Perceptions

Marshall, Smith and Armstrong (2006) has defined tax professionals as a diverse group of individuals and professional groups who provide a wide range of tax services including self-employed and in-house accountants, licensed tax agents, franchises of tax firms as well as legal practitioners in taxation (tax lawyers). Tax professionals play an important role in revenue collection process under self-assessment system. Most of the taxpayers rely on tax professionals to fulfill their tax obligations towards government. Tax professionals are assigned to submit tax returns on behalf of their clients (taxpayers). Hence, tax professional's opinion on any tax issues pertaining to taxpayer is significant and reliable. In view of this, numerous studies on tax issues has been conducted relying on perception from tax professionals.

Sapiei and Kasipillai (2013) has obtained the views of external tax professionals to study the compliance behaviour of corporations as tax professionals are deemed to have knowledge on taxpayer compliance attitude. Similarly, Benk, Cakmak and Budak (2012) sought the perceptions of tax professionals in assessing tax fairness in Turkey. Their justification was because tax professionals possess the required knowledge to evaluate tax policies and systems.

Another study focuses on perceptions of tax professional is Takril and Sanusi (2014) which examined tax practitioners perception on aggressive tax avoidance. They found that tax practitioners perceived aggressive tax avoidance as unethical behavior. Similarly, Borrego, Lopes and Ferreira (2016) conducted a study on perceptions of Portuguese tax professionals on tax complexity and concluded that the tax system was

highly complex. Abdul Manaf, Mat Udin, Ishak and Abdul Rahman (2013) also used tax professional's perception to evaluate the services provided by IRBM. The comments from tax professionals towards the tax authority are important to improve the quality of services provided by IRBM.

Apart from the studies discussed above, there are still many more studies on taxation which are relying on perception of tax professionals in order to derive a reliable outcome. In view of that, for the purpose of this exploratory study, tax professionals' perceptions have been obtained to identify reasons for VDP participation in Malaysia on the following grounds:

- Tax professionals are in better position to understand the research question because the term VDP might not be familiar among taxpayers;
- Any voluntary disclosures will be submitted via tax agents (professionals) to IRBM. Therefore, tax professionals are well aware of taxpayers' reason to participate or not to participate in VDP; and
- Tax professionals have the responsibility to communicate VDP implemented by tax administrators to their client.

2.7 Summary

This chapter reviewed the related literature on tax amnesties and VDP. Although all of the studies are carried out outside Malaysia, it provides a deep understanding on the concept of VDP. The understanding is essential to explore the reasons for taxpayer participation in Malaysian VDP.

CHAPTER 3

METHODOLOGY

3.1 Introduction

This chapter outlines research method that has been adopted in this exploratory study which aims to gain a deeper understanding about Malaysian taxpayer participation in VDP. This section includes a brief discussion on conceptual framework, research instruments, population, sample determination, data collection and data analysis.

3.2 Conceptual Framework

A conceptual framework is a structure which the researcher believes can best explain the natural progression of the phenomenon to be studied (Camp, 2001). For the purpose of this exploratory study, a conceptual framework has been developed based on the reasons contribute to VDP participation in Malaysia as shown in figure 3.1.

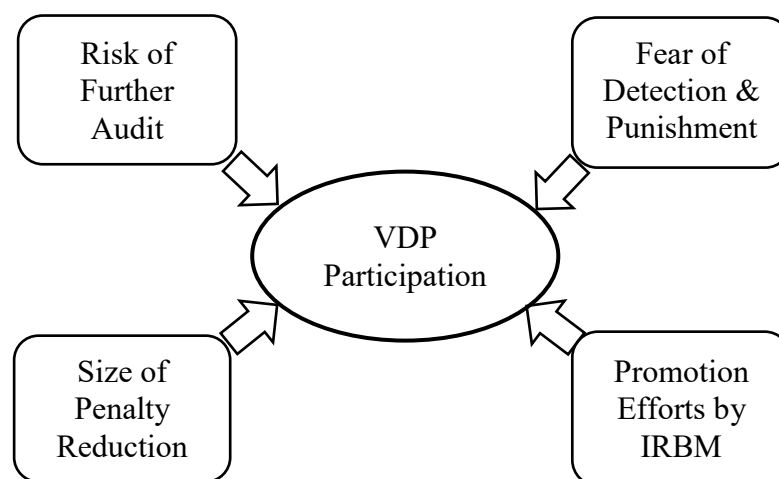


Figure 3.1: Proposed Conceptual Framework for Reasons Contribute to VDP Participation

3.3 Operational Definition

This section provides operational definition of the reasons included in the conceptual framework of the current study. The first reason, size of penalty reduction referred to the amount of reduction in penalty rate during VDP against the concessionary rates stipulated in tax audit framework. Next, fear of detection and punishment refers to behavioral predictions on the probability of detection and the fine on detected evasion by IRBM. Third reason, risk of further audit means the probability that disclosures during VDP subject to detailed audit by IRBM. Finally, promotion efforts by IRBM refers to the publication initiatives taken by IRBM to promote the VDP among taxpayer especially tax defaulters.

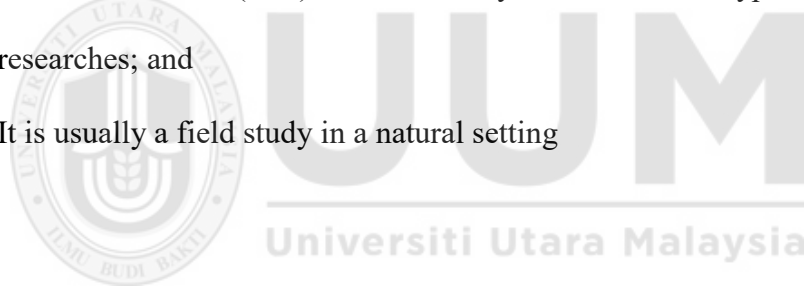
3.4 Research Design

According to Crotty (1998), the choice of research design depends on the purpose of the study and it must be able to answer all research questions. Apart from that, research design also significant as it will determine the type of analysis to interpret the data obtained. In order to address the research question effectively, this study used a quantitative exploratory descriptive design to identify, analyses and describe reasons that contribute to taxpayer participation in VDP from the perspective of tax professionals.

This study is exploratory in nature because it is considers as the first attempt to examine reasons for VDP participation in Malaysia. According to Brink and Wood (1998), an exploratory study is what has not really been examined previously which attempts to find new information/knowledge, new insights, new understandings or

meanings and explore the factors associated to the topic. In addition, this study is descriptive in nature. A descriptive study attempts to provide the perceptions and views of the respondents about the problem studied (Burns & Grove, 1993). Besides that, descriptive study does not answer questions about ‘why’ and ‘how’ but typically answer questions about ‘what is’ or ‘what was’ (Bickman & Rog, 1998). Uys and Basson (1991) explained that the typical characteristics of an ‘exploratory descriptive’ research design are as follows:

- i. It is a flexible research design which enables the researcher to study all aspects of the problem;
- ii. It attempts to develop new knowledge;
- iii. The information (data) obtained may lead to new hypothesis for future researches; and
- iv. It is usually a field study in a natural setting



In order to understand the perception and opinion from a group of tax professionals, who are knowledgeable and experienced in the field of Malaysian taxation, the study opted for a quantitative approach, self-administered questionnaire survey which is cost effective and capable to gather information in a short period of time. This is in line with the suggestions by researchers, for instance, survey method is used to assess public opinion or characteristics of individuals via sampling methods and questionnaires (McBurney, 1994). Survey also has been considered as the most effective tool to present the opinions, ideas and views of a larger population (Sekaran & Bougie, 2010). Survey was also found to be the most suitable research design for

this exploratory study as it simplifies data analysis and relatively easy to conduct with minimum cost.

3.5 Questionnaire Design

The questionnaire employed in this study was self-developed in such a way that enables respondents to answer the questions accurately and easily. In order to develop the items for each reason, in person consultation had been carried out with three tax experts who has been working in the field of taxation for more than 10 years.

The questionnaire is divided into three sections. Section I, as shown in Table 3.1, deals with demographic background and experience on VDP which consisted of questions on gender, age, qualification, location, working experience and VDP experiences. Section II incorporates assessment on factors contributing to VDP participation. The total number of questions has been minimized in order to keep the survey short and simple which aims to get higher response rate. Based on the tax experts consultation as mentioned earlier, three questions were designated to examine each reason which in total consisting of 12 questions with 5-point Likert Scale to give respondents a more expressive options. Respondents were instructed to mark the most suitable answer in which the scores range from 1-5 as follows:

1= Strongly Disagree,

2= Disagree,

3= Neutral,

4= Agree,

5= Strongly Agree

The questions for four reasons, namely, size of penalty reduction, fear of detection and punishment, risk of further audit and promotion efforts by IRBM are presented in Table 3.2 as below;

Table 3.1
Questions for the Reasons Studied

Reason	Items
Size of Penalty Reduction	<ol style="list-style-type: none"> 1. The size of penalty reduction is important in VDP implementation. 2. Current penalty structure offered by IRBM for VDP is failed to influence more taxpayers to participate. 3. VDP in Malaysia will be more effective if the size of penalty reduction is higher.
Fear of Detection and Punishment	<ol style="list-style-type: none"> 1. The probability to detect mistakes/omissions by IRBM is low. 2. Taxpayers who have greater fear of detection will likely to participate in VDP. 3. Taxpayers will participate in VDP if IRBM enforcement activities are enhanced.
Risk of Further Audit	<ol style="list-style-type: none"> 1. IRBM will further audit the voluntary disclosures submitted by taxpayers in VDP. 2. The fear of further audit discourages taxpayers from participating in VDP. 3. If IRBM accepts the disclosures made by taxpayers without further audit, more taxpayers will participate in VDP.
Promotion Efforts By IRBM	<ol style="list-style-type: none"> 1. VDP has been promoted intensively to taxpayers. 2. Taxpayers are well aware of VDP implemented by IRBM. 3. IRBM should increase promotion of the VDP in order to attract and encourage taxpayers to participate.

3.6 Pretesting and Pilot Testing

Chen, Paulraj and Lado (2004) suggested that questionnaires need to be pre-tested before data collection process to validate the contents. Therefore, the questionnaire has been distributed to tax experts (professionals and academics) to ensure the understandability of the statements and its relevance to research question. Their suggestions and amendments on wordings has been incorporated in the final draft.

Besides pre-testing, pilot test is significant in an exploratory research to ensure the clarity and validity of the questionnaires. Therefore, a pilot test was conducted before initiating the actual survey. The final drafts of the questionnaire were distributed to 25 selected senior level IRBM auditors who are experienced in handling VDP cases and 21 has been completed and returned. Positive feedback has been given by the pilot test respondents.

According to Connelly (2008), extant literature suggests that a pilot test sample should be 10% of the sample projected for the larger parent study. On the other hand, Isaac and Michael (1995) and Hill (1998) have suggested 10 – 30 participants for a pilot study in survey research. In view of that, 21 samples is acceptable for the purpose of pilot test in this study which is more than 10% of the targeted sample size.

Reliability test was conducted on the 21 pilot test returned questionnaires which shows Cronbach's Alpha coefficients within the range of 0.5 to 0.8 for all the four reasons as shown in Table 3.1. The acceptable level of Cronbach's Alpha is debatable

as there are different opinions. Although Kubiszyn and Borich (2000) suggested that Cronbach's Alpha value within the 0.80 to 0.90 is acceptable, Ghazali (2008) pointed out the value of 0.6 is acceptable in social sciences. Ideally, the Cronbach's Alpha above 0.50 will be acceptable if the number of questions is small (Tamir, 2008). In view of that, Cronbach's Alpha for all the variables in pilot study is deemed acceptable.

Table 3.2
Pilot Study Reliability Test Results (n=21)

Reasons	No. of Item	Cronbach's Alpha
Size of Penalty Reduction	3	0.606
Fear of Detection and Punishment	3	0.727
Risk of Further Audit	3	0.719
Promotion Efforts by IRBM	3	0.523

3.7 Population of the Study

Patton (2002) has defined target populations as group of persons, objects or institutions that accurately describes the objects of the research study. In this study, the population was tax professionals in Malaysia including registered tax agents, tax preparers, tax accountants, in-house tax accountants and self-employed. The definition of tax professional or tax practitioner has been adapted from previous studies. (Roth, Scholz & Witte, 1989; Marshall, Smith & Armstrong, 1997).

3.7.1 The Eligibility Criteria

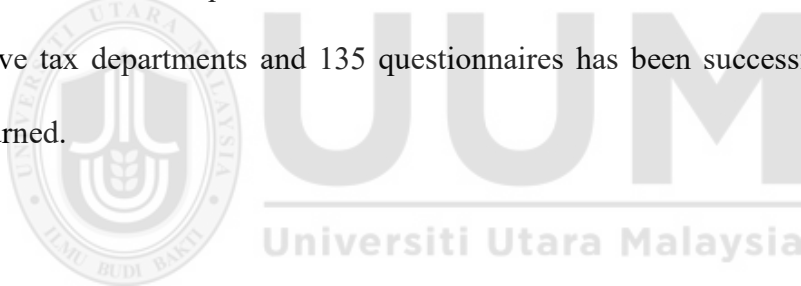
Polit and Hungler (1999) stated that eligibility criteria specify the characteristics that must be possessed by the population in order to be eligible as participants. The eligibility criteria for this study is participants must have been working in the field of Malaysian taxation, specifically preparing tax returns and providing tax related advices to their clients (taxpayers).

3.8 Sampling Method

Purposive sampling method has been adopted for the purpose of this study which enables the researcher to apply own judgment to identify samples. Morse and Richards (2002) stated that purposive samples are chosen based on its ability to address the research questions being asked in the study whereas Polit and Beck (2004) suggested that newly incorporated questionnaires will be evaluated effectively via purposive sampling especially when the researcher prefers a sample of experts. Tax professionals from big four tax firms in Klang Valley and Johor Bahru have been identified using purposive sampling. This is because they are handling with highest number of clients and well aware of tax policies and programmes implemented by IRBM. For example, Ernst and Young Malaysia has issued an article, namely, *Tax Amnesty: Reduction and Waiver of Tax Penalties* (Ernst & Young, 2016) which shows that tax practitioners are playing a pivotal role to help businesses understand the functions and benefits of VDP.

3.9 Data Collection

Another important process in research design is data collection because the method employed will determine the reliability of the data. The questionnaires (after pilot testing and appropriate modifications) were distributed to all big four tax firms in Johor Bahru and Kuala Lumpur during the period of January - May 2018. The longer period (5 months) are due to the process involved in data collection. Head of tax department at KPMG, Ernst and Young, PwC and Deloitte in Kuala Lumpur and Johor Bahru were contacted to get permission to distribute questionnaire to all staff in their department and a sample of questionnaire has been emailed as per their request. After reviewing the questionnaires, approval for distribution was given via email or telephone. Thereafter, questionnaires were distributed based on staff population in respective tax departments and 135 questionnaires have been successfully completed and returned.



3.10 Data Analysis Techniques

Data collected were compiled, coded, categorized and input into the Statistical Package for Social Sciences (SPSS) Version 21. There are three analyses which have been carried out in this study. Firstly, the reliability analysis was conducted to validate the accuracy and reliability of the questionnaire. Secondly, the validity analysis was conducted to measure the validity of the items in the questionnaire. According to Sekaran and Bougie (2010), it is important for the research instruments to be approved using validity analysis. Thirdly, the descriptive analysis was conducted to rank the reasons contributed to VDP participation.

3.11 Summary

Chapter three illustrated the proposed research design for this study together with the explanation on the survey method, data collection method, population and sample selection, questionnaire design, pilot testing and proposed data analysis techniques. Pilot study was conducted on 21 samples and the results are acceptable. Meanwhile, a total of 135 questionnaires has been completed and returned for further analysis. The next chapter, Chapter Four presents the results and discussion of this study.



CHAPTER FOUR

DATA ANALYSIS AND RESULTS

4.1 Introduction

This chapter represents the prime focus of the study which addresses the research question. It mainly discusses the analysis conducted on the data obtained from self-administered questionnaires which were completed by tax professionals. In order to present the analysis effectively, this chapter has been divided into seven sections, namely, response rate validity, of respondents profile, data screening, assessment of normality, reliability analysis, factoring analysis and descriptive statistics analysis as illustrated in figure 4.1.

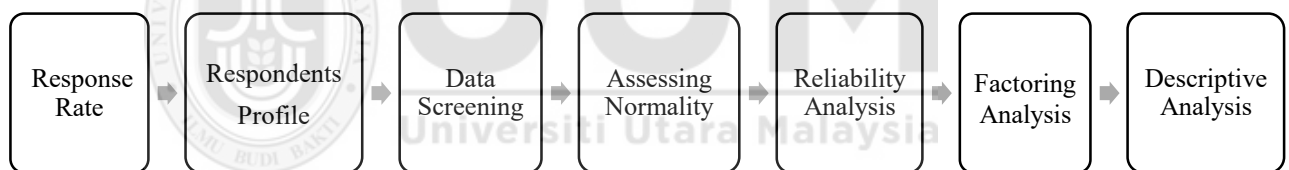


Figure 4.1: Overview of Data Analysis

4.2 Response Rate

Response rate is considered as a significant measure of validity whereby AAPOR (1997) recognized response rate as one of the important reporting elements for an exemplary survey research. In view of that, this section will present the response rate statistic for this study. Overall, the response rate of 84.4% as shown in table 4.1 is considered as very good for analysis and reporting (Babbie, 2007).

Table 4.1
Response Rate

	Number	%
Questionnaires Distribute	160	100
Questionnaires Returned	135	84.4
(-) Disqualified Questionnaires	-	-
(-) Incomplete Questionnaires	-	-
Usable Questionnaire	135	84.4

4.3 Respondents Profile

A total of 135 respondents have participated in the survey and their demographic profile analysis is shown in Table 4.2. The respondents profile includes a total of 135 tax professionals who took part in this study. Among them, male respondents were 39 while 96 were female and percentage of these respondents is 28.9% and 71.1% respectively. Majority of the respondents i.e. 66 tax professionals aged between 20-30 years. As a certified tax professional, majority of respondents have first degree as their highest qualification except three of them with diploma qualification. A total of 85 of them hold degree while professional qualification holders were 45 and masters holders were two respondents. Table 4.2 also shows that more than half of the respondents (53.3%) are from Johor Bahru and the rest are from Kuala Lumpur (46.7%). In term of working experience, a majority of respondents (51%) stated that they have been in the field for a period of 1 to 5 years meanwhile around 17% of them having working experience from 5 to 10 years. The rest of them, 31%, had more than 10 years of experience in taxation. In total 48 surveyed have experienced in handling VDP cases however, a larger population, 87 of them equivalent to 64.4 % had never handled VDP case before.

Table 4.2
Respondents Profile

Demographic Information	Frequency	Percentage
1. Gender		
Male	39	28.9
Female	96	71.1
<i>Total</i>	<i>135</i>	<i>100.0</i>
2. Age		
20 – 30	66	48.9
31 – 40	47	34.8
41 and Above	22	16.3
<i>Total</i>	<i>135</i>	<i>100.0</i>
3. Qualification		
Diploma	3	2.2
Degree	85	63.0
Professional Qualification	45	33.3
Masters / PhD	2	1.5
<i>Total</i>	<i>135</i>	<i>100.0</i>
4. Location		
Johor Bahru	72	53.3
Kuala Lumpur	63	46.7
<i>Total</i>	<i>135</i>	<i>100.0</i>
6. Working Experience		
1 – 5 years	69	51.1
6 – 10 years	24	17.8
11 – 15 years	23	17.0
16 – 20 years	14	10.4
21 years & above	5	3.7
<i>Total</i>	<i>135</i>	<i>100.0</i>
7. Handle VDP Case		
YES	48	35.6
NO	87	64.4
<i>Total</i>	<i>135</i>	<i>100.0</i>

4.4 Data Screening

This is the first step in data analysis which is known as pre-analysis stage. Prior to data analysis and data recoding process, it is essential to check the data for correctness and other errors. Data screening process is including checking for error, finding and correcting the error (Pallant, 2005).

For the purpose of this study, 135 usable questionnaires were screened carefully and no error is found. This may due to the background of respondents who are professional and highly committed to answer all the questions properly. Apart from that, the presence of outliers also has been tested as part of data screening process. No outliers were detected as well.

4.5 Normality Assessment

Normality assessment is a prerequisite for any statistical procedures. Gravetter and Wallnau (2000) has defined normal distribution as symmetrical with bell shaped curve, whereby scores with the highest frequency will appear at the middle and scores with minimum frequency will be located towards the extremes.

There are many ways to test normality of data distribution including graphical and statistical examination. For the purpose of this study, the following statistical techniques were conducted to determine the normality of data distribution:

- Statistical Analysis of Normality : Skewness and Kurtosis
- Graphical Analysis of Normality: Histograms and Quantile-Quantile Plots

4.5.1 Statistical Analysis of Normality - Skewness and Kurtosis

Although many statistical methods are available to test normality, Skewness and Kurtosis of the distribution deemed to be suitable to measure data normality as it is relatively correct for both small and large samples of data (Tabachnick & Fidell, 2007).

George and Mallery (2006) defined Skewness as an indicator that reflects to what extent distribution of data is symmetrical. Skewness value of zero asserts a perfectly normal distribution whereas outside the range of +1 to -1 implies a strong deviation from normality (Hair et. al., 2006). Based on the figures in Table 4.1, skewness values for all variables in this study are within the range of +1 to -1, hence normal distribution can be assumed.

Meanwhile, Kurtosis value measures the flatness or peachiness of data distribution. Although George and Mallery (2006) suggested that kurtosis value between +1 and -1 is considered normal distribution, Coakes and Steed (2003) mentioned that kurtosis values are acceptable within +3 and -3. Therefore, the kurtosis values for variables in this study which ranges 0.789 to 1.321 as illustrated in Table 4.3 is assumed to be normally distributed.

Table 4.3
Summary of Skewness and Kurtosis Value of the Variables

Reasons	Skewness		Kurtosis	
	Statistic	Std. Error	Statistic	Std. Error
Size of Penalty Reduction	-0.773	0.209	0.789	0.414
Fear of Detection & Punishment	-0.426	0.209	1.406	0.414
Risk of Further Audit	-0.985	0.209	1.315	0.414
Promotion efforts by IRBM	-0.364	0.209	1.321	0.414

4.5.2 Graphical analysis of Normality: Histograms and Quantile-Quantile Plots

Figure 4.2 to 4.5 displays the histograms and corresponding Q-Q plots for all the variables studied in this research paper. The bell-shaped curves, called normal curves, drawn over the histograms and a fairly straight Q-Q plot confirm strong indication of normal distribution.

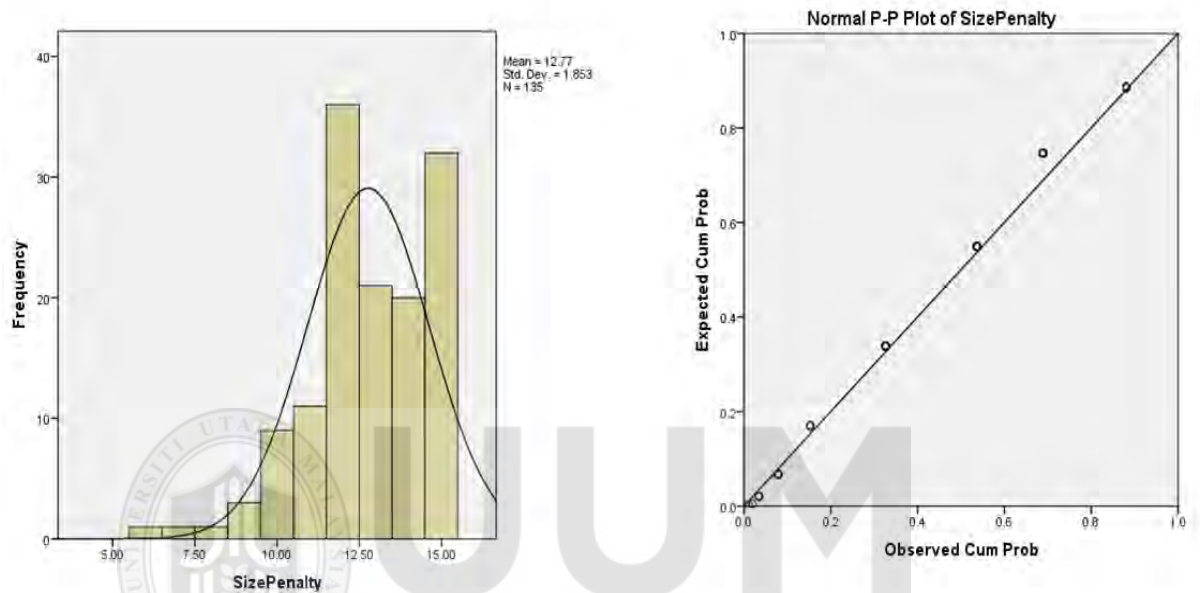


Figure 4.2: Histogram with Bell Curve and Normal Q-Q plot for *Size of Penalty Reduction*

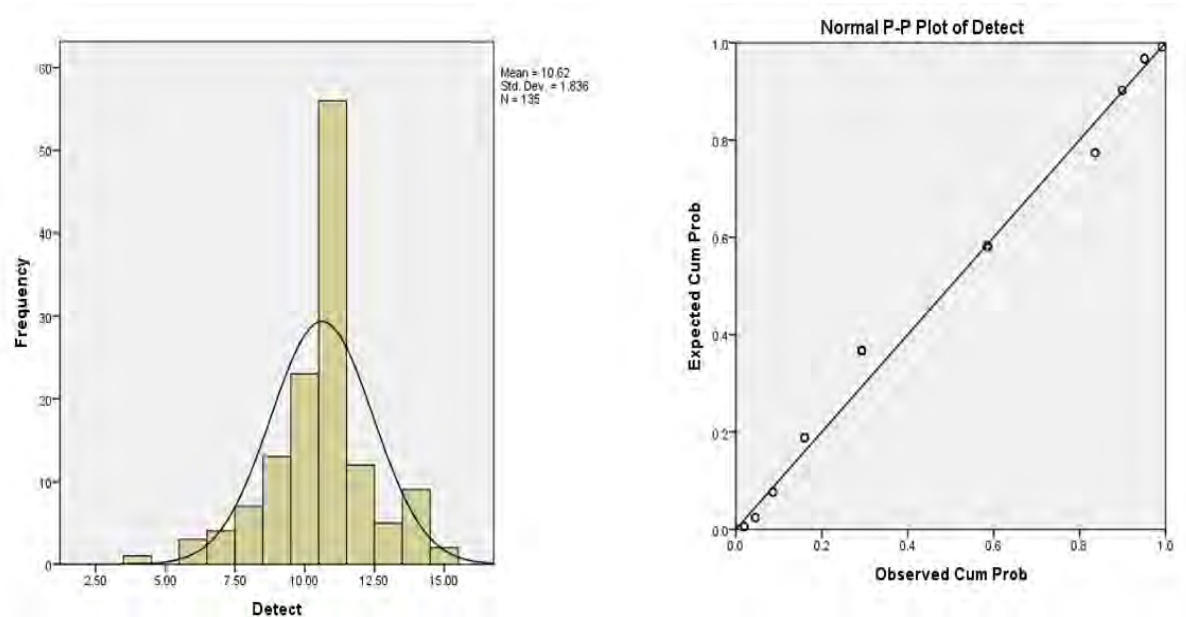


Figure 4.3: Histogram with Bell Curve and Normal Q-Q plot for *Fear of Detection & Punishment*

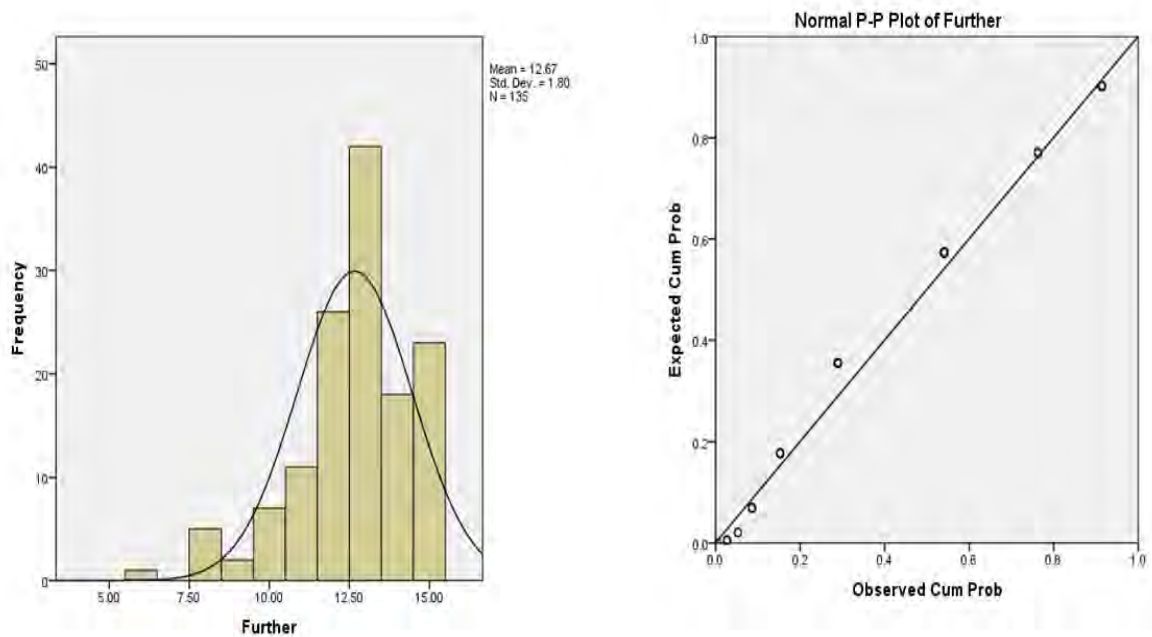


Figure 4.4: Histogram with Bell Curve and Normal Q-Q plot for *Risk of Further Audit*.

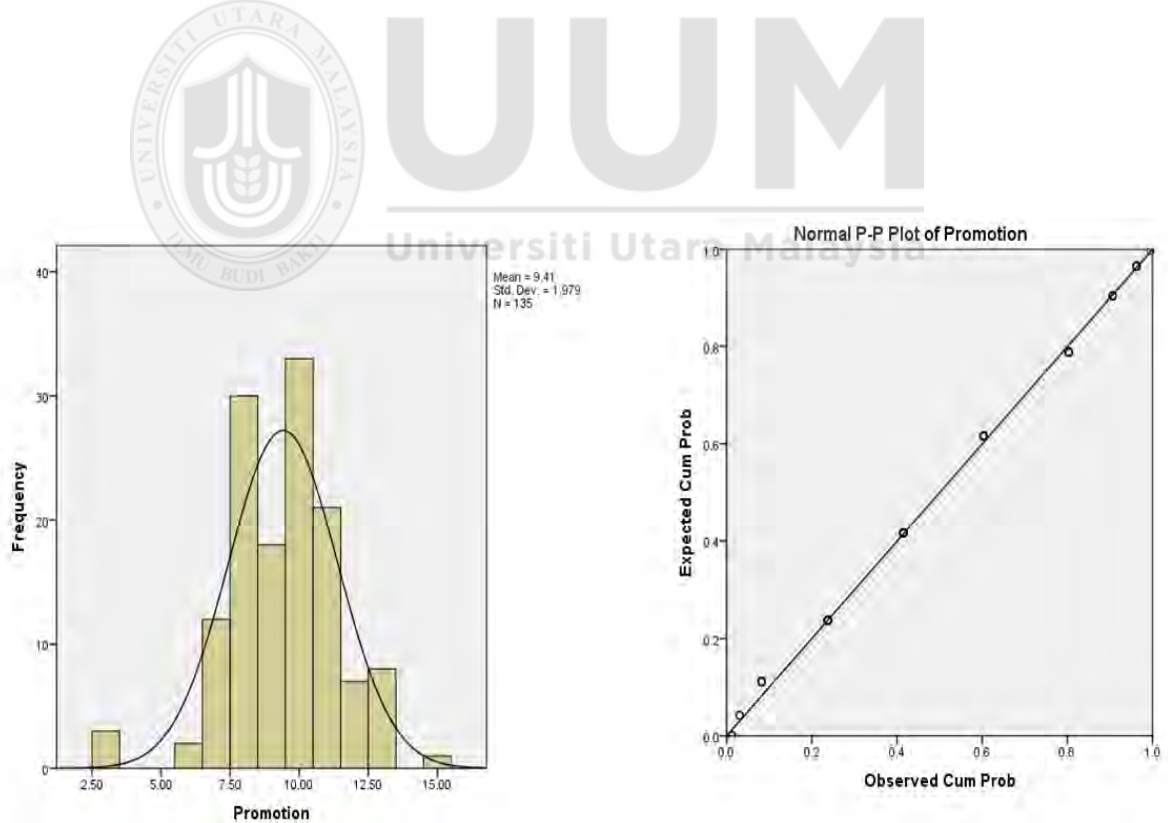


Figure 4.5: Histogram with Bell Curve and Normal Q-Q plot for *Promotion Efforts by IRBM*.

4.6 Reliability Analysis

Reliability is an extent to which multiple measurements of an instrument consistently measure what it intends to measure (Creswell, 2014). In simple terms, it refers to the extent to which the same scores can be obtained using the same questionnaire for more than one time. For the purpose of this study, Cronbach's Alpha has been used to assess the internal consistency of the items in each variable and the results are presented in Table 4.4.

Table 4.4
Reliability Analysis of Variables (n=135)

Variables	No. of items	Cronbach's Alpha
Size of Penalty Reduction	3	0.734
Fear of Detection & Punishment	3	0.872
Risk of Further Audit	3	0.812
Promotion efforts by IRBM	3	0.841

As Table 4.5 shows, the variable 'Fear of Detection and Punishment' has the highest Cronbach's Alpha, as high as 0.872 whereas 'Size of Penalty Reduction' has the lowest score, as low as 0.734. The acceptable level of Cronbach's Alpha is arguable as there are different opinions among researchers. Kubiszyn and Borich (2000) suggested that Cronbach's Alpha within the range of 0.80 to 0.90 is acceptable whereas Ghazali (2008) pointed out that value of 0.6 is considered as reliable in social sciences. Ideally, Cronbach's Alpha above 0.50 also endorsed in cases where the number of question is small (Cockburn et.al., 1991; Tamir, 2008). Therefore, since the minimum reliability scores in this study is above 0.7, it can be concluded that all variables (factors) of the instrument produced satisfactory reliability level.

4.7 Validity Test

Factor analysis is the medium commonly used to test validity of instruments in research studies. It will provide construct validity evidence of self-reporting scales and helps to reduce the huge number of questions into few factors (variables) according to their interrelationship. Costello and Osborne (2005) mentioned that factor analysis measures how good a research model with specific amount of factors accounts for the variance between a dataset. Two statistical measures has been performed to determine the factorability of data as follows:

- The Kaiser-Meyer-Olkin (KMO), a statistic that indicates the amount of variance in the variables which might be caused by the underlying constructs (factors).
- Bartlett's test of sphericity, a statistic that tests the null hypothesis whether the original correlation matrix is an identity matrix.

Pallant (2007) has recommended that minimum KMO index value for a good factor analysis is 0.60 while Bartlett's sphericity test should be significant ($P < 0.05$) for a reliable factor analysis. The results of the KMO and Bartlett's sphericity test for all the variables are demonstrated in Table 4.6. It should be noted that KMO values for all variables are above 0.650 which exceeds the suggested minimum value of 0.60. Meanwhile, Bartlett's sphericity test values for all variables are statistically significant ($P = .000$). The result also shows that total variance explained for all factors are ranging from 63.18% to 69.71% which is deemed to be good. Stevens (2002) indicates that a decent model should have at least 50% of the variance in the variables explained by factors. Given all these statistical evidences, the instrument used is deemed valid and acceptable.

Table 4.5
Factor Analysis (n=135)

Reasons	No of Items	No of Factors	KMO	Variance Explained (%)
Size of Penalty Reduction	3	1	0.676	69.71
Fear of detection and Punishment	3	1	0.688	67.59
Risk of Further Audit	3	1	0.651	63.18
Promotion Efforts by IRBM	3	1	0.642	63.71

On top of that, Table 4.6 reports the Rotated Component Matrix in factor analysis to interpret categories or reasons of all items measured in this study on the basis of Varimax Rotation with Kaiser Normalisation. To identify the items related to each reason, the items with the maximum value in each row is selected to be part of the respective reason. The highest values have been stated in each of the rows to group the 12 items into 4 reasons. The results ensure construct validity of the measurement for all four reasons and confirm the items used to measure each reason are suitable and valid.

Table 4.6
Rotated Components Matrix (n=135)

	Component			
	1	2	3	4
Penalty Reduction Important	.782			
Penalty Structure Attractive	.826			
VDP Effective If Size Reduction Higher	.827			
Detect Mistakes Low		.789		
Greater Fear Participate		.849		
IRBM Enforcement Enhanced		.808		
Further Audit In VDP				.813
Further Audit Discourage				.855
If NO Further Audit More Taxpayers Will Participate				.647
VDP Promoted Intensively to Taxpayers			.763	
Taxpayers Well Aware			.866	
IRBM Should Increase Promotion			.743	

4.8 Descriptive Analysis

Descriptive analysis are commonly used to explore and describe what the raw data indicates through various measurements such as mean, median, range, variance and standard deviation. The mean score will best explain the central tendency of the data collected. The response scale in this study instrument ranged from 1 (strongly disagree) to 5 (strongly agree), and thus a greater mean value indicates a strong agreement with particular criterion and vice versa. On the other hand, standard deviation will measure how focused or spread the data around the average (mean) and serves as a statistical measure of variation. The descriptive analysis for all the data collected will be presented according to reasons.

4.8.1 Size of Penalty Reduction

As clearly illustrated in Table 4.7, the mean score for all the items are above 4.00 which indicate a good agreement with the statements. Respondents perceived that size of penalty reduction is significant in VDP implementation whereby current penalty structure offered by IRBM is not attractive to taxpayers. Ideally, they believe that VDP in Malaysia will be more successful if the penalty reduction is higher. Meanwhile a smaller standard deviation for all the statements indicate that the results are very close in value to the mean.

Table 4.7
Size of Penalty Reduction (n=135)

No	Reason/Items	Min	Max	Mean	Std. Deviation
<i>Size of Penalty Reduction</i>					
1	The Size of Penalty Reduction is Important in VDP Implementation.	3	5	4.36	0.674
2	Current Penalty Structure offered by IRBM for VDP failed to Influence more Taxpayers to Participate.	1	5	4.07	0.745
3	VDP in Malaysia will be more Effective if the size of Penalty Reduction is Higher.	1	5	4.35	0.795

4.8.2 Fear of Detection and Punishment

Based on the results presented in Table 4.8, the mean value of 3.01 reveals that tax professionals maintain a neutral perspective when the question is dealing with the probability of omission/error detection by IRBM. However, mean value above 3.5 for item two and three represent their agreement on the statements. In other words,

although tax professionals are unsure on detection probability by IRBM, they believes that enhancement of enforcement activities by IRBM will influence more tax payers to come forward to participate in VDP due to the fear of detection and punishment. Besides that, a smaller standard deviations of less than 1 for all the items indicates that more of the data is clustered about the mean.

Table 4.8
Fear of Detection and Punishment (n=135)

No	Reason/Items	Min	Max	Mean	Std. Deviation
<i>Fear of Detection and Punishment</i>					
1	The Probability to Detect Mistakes/Omissions by IRBM is Low	1	5	3.01	0.617
2	Taxpayers who have Greater Fear of Detection will likely to Participate in VDP.	1	5	3.82	0.818
3	Taxpayers will Participate in VDP if IRBM Enforcement Activities are Enhanced.	1	5	3.79	0.793

4.8.3 Risk of Further Audit

The mean value of 4.00 and above for all the items as per in Table 4.9 evident that risk of further audit is an important factor. Tax professionals foresee that IRBM will further audit the voluntary disclosures made by taxpayers which discourage them from participating in VDP. Therefore, they agree that VDP participation will be increasing if IRBM accepts the voluntary disclosures of past omissions without further checking. A low standard deviation shows tax professional responses are concentrated around the mean score.

Table 4.9
Risk of Further Audit (n=135)

No	Reason/Items	Min	Max	Mean	Std. Deviation
<i>Risk of Further Audit</i>					
1	IRBM will Further Audit the Voluntary Disclosures submitted by Taxpayers in VDP.	2	5	4.13	0.786
2	The Fear of Further Audit Discourages Taxpayers from Participating in VDP.	2	5	4.17	0.739
3	If IRBM accepts the Disclosures made by Taxpayers without Further Audit, More Taxpayers will Participate in VDP.	1	5	4.37	0.741

4.8.4 Promotion Efforts by IRBM

As demonstrated in Table 4.10, in term of promotion efforts on VDP, tax professionals disagree that IRBM has promoted VDP sufficiently to taxpayers, thus they are not aware of the VDP. Hence, they agree that IRBM should increase promotion of the VDP to attract and encourage more taxpayers to participate. Similar to other reasons, a low standard deviation for all the items reflects that the scores are close to the average (mean).

Table 4.10
Promotion Efforts by IRBM (n=135)

No	Reason/Items	Min	Max	Mean	Std. Deviation
<i>Promotion efforts by IRBM</i>					
1	VDP has been Promoted Intensively to Taxpayers.	1	5	2.82	0.863
2	Taxpayers are well Aware of VDP Implemented IRBM.	1	5	2.70	0.829
3	IRBM should Increase Promotion of the VDP in order to Attract and Encourage Taxpayers to Participate.	1	5	3.89	0.789

4.9 Rank of the Reasons Contributing to VDP Participation

Based on the mean value obtained from data analysis, the reasons for VDP participation was ranked as shown in table 4.10. Size of penalty reduction had the highest ranking followed by risk of further audit whereby both has recorded mean value above 4.00 for all the statements. Fear of detection and punishment was ranked as the third important reason contributing to VDP participation and lastly promotion efforts by IRBM with total mean value of 9.41.

Table 4.11
Ranking of Reasons

Reasons	Mean value	Ranking
Size of Penalty Reduction	12.77	1
Risk of Further Audit	12.67	2
Fear of Detection and Punishment	10.62	3
Promotion Efforts by IRBM	9.41	4

4.10 Summary

Chapter four has focused on discussing on the results retrieved from SPSS version 19.0 on three kinds of analyses done; descriptive analyses, reliability analyses and validity analyses in order to test the data obtained. For all the variables studied, Cronbach's Alpha values were more than 0.70 whereas normality test indicated that all the data were distributed normally. In addition, the validity test shows all the variables has KMO value of more than 0.60. It was found that all four reasons are influencing taxpayers participation in VDP although the magnitude of agreement is differs. The next chapter; chapter 5 presents discussion of the findings, conclusion and recommendation of this study.



CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter concludes the study. The main findings with regard to the study objectives are discussed. In addition, the suggestion and opinion of the respondents regarding VDP in Malaysia also presented, followed by the strengths and limitations of this research study. Finally, overall conclusion ends the study report.

5.2 Discussions of Findings

As elaborated in Chapter 1, the ultimate objective of the study is to determine tax professionals' perceptions on reasons contributing to taxpayers' participation in VDP. Basically, tax professionals agree that all the reasons listed are contributing to VDP participation although the level of agreement for each factor differs. Size of penalty reduction records the highest mean value (12.77). Obviously, monetary incentive provided under VDP is the main attraction that influences taxpayer's decision to disclose past omissions. This result is consistent with standard tax-evasion theory which predicts that a rational taxpayer only participate in VDP or amnesty disclosure programmes if enforcement, penalty or tax parameters are varied with the amnesty in a way that provide extra incentives to take part (Alm & Beck, 1991). Apart from that, this result also in line with a few studies conducted abroad. For instance, Farrar and Hausserman (2016) conducted a study in the United States and concluded that desire to avoid penalty is the most influential motivation in taxpayers amnesty decision-making. Meanwhile Mahestyanti, Juanda and Anggraeni (2018) concluded that tax

amnesty participation in Indonesia is the highest when tariff (penalty) rate offered was the lowest. Correspondingly, OECD (2015) stated that if the total of tax liability and penalty under VDP is higher than the value of asset, taxpayer might not be motivated to participate.

Given a strong agreement from respondents to reduce the existing VDP penalty rate, a comparison has been made to one of the neighboring country, Singapore. Voluntary disclosure concessionary penalty rate in Singapore is presented in Table 5.1. Clearly, VDP penalty rate in Malaysia is still much higher than Singapore. Based on the Table 5.1, Singapore waive penalty for any disclosures or amendments within one year from submission date and 5% penalty if the disclosures are made after one year whereas Malaysia imposes a maximum of 35% as shown in Table 1.1 in Chapter 1.

Table 5.1
Voluntary Disclosure Penalty Rate in Singapore

Tax Audit Framework effective from 01 February 2015	
Period of making voluntary disclosures	
One year from tax return due date	No Penalty imposed
After one year	5%

Source: Inland Revenue Authority of Singapore (IRAS)

This indicates a necessity for a reform in VDP penalty regime. Tax professionals also perceived that the size of penalty reduction is not attractive in Malaysian VDP. They have suggested as follows;

- i. *“VDP rate should be around 0-5% to attract taxpayers to disclose their omissions or error. If the IRB did not pick up the case, the tax will never be collected. However, if the VDP rate is zero, it will encourage the taxpayer to admit their mistakes and remit the additional tax to IRB”*
- ii. *“There should be an “incentive” for companies to opt for VDP. The differential in penalty rate is not attractive at all as taxpayers are exposed to risk of audit of VDP cases in future.*
- iii. *“To only penalise if the additional tax payable based on the voluntary disclosure exceed 10% of the initial assessment submitted by taxpayer”*

Risk of further audit also recorded high mean value (12.67) and ranked second indicating a strong agreement that many taxpayers in Malaysia is really concern that their disclosure under VDP will give rise to further audit by IRBM. Hence, the risk of further audit becomes one of the major deterrents to VDP participation. In view of the foregoing which might resulted in failure of VDP implementation, OECD suggested that a clear guidance must be issued on VDP to assure the public that disclosures during VDP is confidential and will not affect the future compliance activity (OECD, 2015). Also, Marchese (2014) stressed that auditing powers should be excluded or limited during VDP to boost taxpayers participation. This argument is supported by tax professionals as they commented as follows;

- i. *“IRBM should not classify VDP participants as their focused group of tax defaulters. They should be treated as other compliant taxpayers for future audit activities”*
- ii. *“IRBM should not open back the assessment for the years which taxpayers opt to disclose under VDP”*

The third reason that contributes to taxpayer participation is fear of detection and punishment with cumulative mean value of 10.62. Tax professionals acknowledge that taxpayers who have greater fear of detection and punishment will likely to participate in VDP, although maintain a neutral perspective on IRBM's future audit probability. This result indicates that although tax professionals participated in the survey is not sure about IRBM's enforcement capability, they agree that taxpayers will participate in VDP if they think that IRBM is capable to detect their error or omissions. This result has supported previous studies which emphasize that detection probability and fear of punishment has made VDP attractive to tax evaders (Alm, 1990; Fisher et. al., 1989; Graetz and Wilde, 1993; Bayer et. al., 2014).

VDP is targeting non-compliant taxpayers who are avail themselves of VDP to pay tax plus penalty (OECD, 2015). These tax defaulters pays taxes because they afraid of getting caught and penalized. Indeed, fear of detection and punishment is the factor triggered them to participate in VDP. Therefore, there is still ample of avenue to improve the enforcement activities by IRBM in order to have a significant impact on fear of detection and punishments among taxpayers.

In addition to the three reasons discussed above, from the perspective of tax professionals, promotion efforts by IRBM do influence taxpayer participation in VDP although the level of agreement is moderate with total mean value of 9.41. Tax professionals believed that many taxpayers are not aware of VDP implemented by IRBM. Thus, they are of the opinion that IRBM should increase promotion of the VDP in order to attract and encourage taxpayers to participate. As stressed in

previous literatures, promotion efforts of VDP must include enhancement of enforcement activities in the post VDP period in order to create fear and awareness among tax evaders. This result also similar with overseas studies which emphasized the importance of publication efforts to ensure that the programmes reach targeted participants (Parle & Hirlinger, 1986; Mikesell, 1986; Ross & Buckwalter, 2013). In order to ensure the implementation and advantage of VDP reach the targeted taxpayers and tax defaulters, tax professionals have given the following suggestions;

“IRB should organise more campaigns and increase the range of publicity to let more people know about VDP through social media, IRB talk show and other main TV channels”

5.3 Theoretical Implications of the Study

This study extends and contributes to the literature on VDP or tax amnesty by identifying reasons or motives for taxpayer participation in VDP within Malaysian context. Since there is no published academic study on VDP in Malaysia as at the completion of this study, this study will enhance the understanding on Malaysian VDP and opens unique windows for future research. On top of that, the conceptual framework developed in this study can be useful for future researches to further investigate on these issues. Besides that, the self-developed questionnaire to measure reasons for VDP participation which has been content validated by experts and construct validated using factor analysis can be a useful reference for studies in this area. Thus, this study not only contributes to fill the theoretical gap in VDP participation but also aspire to attract future researcher’s interest into this challenging endeavour.

5.4 Practical Implications of the Study

As explained earlier, the main purpose of this study was to address the reasons for poor participation in VDP implemented by IRBM. Therefore the major practical contribution of this research is that it provides much needed input on VDP participation which will allow IRBM to redesign the future VDP accordingly. This study advocates for a clear guideline on VDP as practiced by other countries. Apart from clarifying the submission procedures, the guidelines should include clarification for various doubts arisen on VDP participation. In addition, the concessionary penalty rate for VDP needs to be revised in order to make it more attractive to tax defaulters. Participation in VDP could be increased if the cost of voluntary disclosure is significantly less than if being caught by enforcement actions. This study also urges for assuring the public that information disclosed during VDP are confidential and will not be subject to further audits besides promoting effectively the benefits of VDP and consequences for failing to grab the opportunity. Besides that, it may be worth considering the suggestions provided by tax professionals to boost VDP participation. Apart from that, the reasons studied also applicable to other tax administrators around the world who are considering VDP as a strategy to enhance tax compliance.

5.5 Limitations of the Study

This study is not exceptional from its limitations. The limitations which could affect the generalizability of the findings could be due to the VDP participation reasons were only measured from the tax professionals' perspectives. Thus, in order for the findings to be more representative, views from other stakeholders such as tax payers and IRBM staff would have been desirable.

Besides that, this study has concentrated only on four reasons that lead to VDP participation. There are other aspects that could be considered such as guilt coalitions and strategic delinquency as documented by some studies in other countries which is more suitable to be asked to taxpayers instead of tax professionals. In addition, the study results would be more effective if the respondents are those participated or would consider participating in VDP but it would be infeasible and challenging to recruit them as respondents.

The instrument (questionnaire) used in this study was self-developed. Although the validity has been tested, there are avenues for improvement in order to measure the reasons more accurately in other research settings. To date, no published literature is available on VDP in Malaysia, thus no data for comparison of the study outcome. Hence, the results were compared with studies conducted in other countries in which the VDP design might be different as well as the tax law and respondents' attitude.

5.6 Recommendations for Future Research

This thesis explores the reasons for taxpayer participation in VDP from tax professionals' point of view. Given the limitations of the study and lack of success of VDP in Malaysia, there are a number of avenues for future research. Future study may evaluate or focus on other reasons which contribute to VDP participation among taxpayers in Malaysia as suggested in the previous section. It would also be valuable to obtain the views of other stakeholders, especially taxpayers and IRBM in order to enhance the VDP implementation. Apart from that, future studies may also consider

to evaluate the VDP in Malaysia in term of the effectiveness of the programme to IRBM and taxpayers. Further study is needed to establish empirical evidence of the relationship between influencing factors and VDP participation such as suggested in the conceptual framework of this study to enhance understanding and provide further theoretical contribution to taxation literature.

5.7 Conclusion

VDP is a good tax policy to improve tax compliance and administration if executed carefully. Various aspects need to be considered to implement a successful VDP without compromising the existing enforcement efforts. This study explores the reasons that contribute to taxpayer participation in Malaysian VDP from the perspective of tax professionals. In total, four reasons namely, size of penalty reduction, fear of detection and punishment, risk of further audit and promotion efforts by IRBM had been examined and discussed in this thesis.

This study could be considered as the first attempt in understanding the VDP implementation in Malaysia. Despite the outlined limitations, this study contributes to the literature by way of providing knowledge and understanding from evidence gathered in the Malaysian tax system context and it is expected that the findings will spark for future studies in this area.

REFERENCES

- Alm, J., & Beck, W. (1993). Tax amnesties and compliance in the long run: A time series analysis. *National Tax Journal*, 46(1), 53-60.
- Alm, J., McKee, M. and Beck, W. (1990). Amazing grace: tax amnesties and compliance. *National Tax Journal*, 43(1), 23-37.
- Alm, J. Martinez-Vazquez, J. and Wallace, S. (2009). Do tax amnesties work? The revenue effects of tax amnesties during the transition in the Russian federation. *Economic Analysis & Policy*, 39(2), 235-253.
- American Association for Public Opinion Research (1997). *Best Practices for Survey and Public Opinion Research and Survey Practices*. AAPOR Condemns, Ann Arbor, MI: AAPOR.
- Babbie, E. (2007). *The practice of social research (11th Ed.)*. Belmont, CA: Thomson Wadsworth.
- Baer, K. and E. Le Borgne (2008). *Tax Amnesties. Theory, Trends, and Some Alternatives*, International Monetary Fund: Washington DC.
- Bayer, R.C., Oberhofer, H., & Winner. H. (2014). *The occurrence of tax amnesties: theory and evidence*. Working Paper in Economic and Finance 06, Austria: University of Salzburg.
- Benk, S., Çakmak, A., & Budak, T. (2012). Tax Professionals "Perceptions of tax fairness: Survey evidence in Turkey". *International Journal of Business and Social Science*, 3(2), 112-117.
- Bickman, L. and Rog, D.J. (1998), *Handbook of Applied Social Research Methods*, Sage, Thousand Oaks, CA: Sage Publications.
- Borgne, E. Le. (2006). Economic and political determinants of tax amnesties in the U.S. *National Tax Journal*, proceedings of the 98th Annual Conference on Taxation, 443
- Borrego, A. C., Lopes, C. M. M. and Ferreira, C. M. S. (2016). Tax complexity indices and their relation with tax noncompliance: empirical evidence from the Portuguese tax professionals. *Tékhnē – Review of Applied Management Studies* 14(1), 20 -30.
- Bose, P., & Jetter, M. (2012). Liberalization and Tax Amnesty in a Developing Economy. *Economic Modelling*, 29, 761-765.
- Brink, J.B. & Wood, M.J. (1998). *Advanced designs in nursing research*. 2nd edition. Thousand Oaks: Sage.

- Burns, N & Grove, SK. (1993). *The practice of nursing research: conduct, critique and utilization*. 2nd edition. Philadelphia: Saunders.
- Camp, W. G. (2001). Formulating and Evaluating Theoretical Frameworks for Career and Technical Education Research. *Journal of Vocational Educational Research*, 26 (1), 27-39.
- Chen, I.J., Paulraj, A. & Lado, A.A. (2004). Strategic purchasing, supply management and firm performance, *Journal of Operations Management*, 22(5), 505-523.
- Christian, W. C., Gupta, S. and Young, C. J., (2002). "Evidence on Subsequent Filing from the State of Michigan's Income Tax Amnesty", *National Tax Journal*, 55(4), 703-721.
- Chugh, Ram L. (1987). "State Tax Amnesty Programs: A Comparative Analysis", *the Nelson A. Rockefeller Institute of Government Special Report*, Fall (17).
- Coakes, S.J. & Steed, L.G. (2003). *SPSS: Analysis with Anguish. Version 11.0 for Windows*. Milton: John Wiley & Sons Australia.
- Connelly, L. M. (2008). Pilot studies. *Medsurg Nursing*, 17(6), 411-2.
- Costello, A. B., & Osborne, J. (2005). Best practices in exploratory factor analysis: Four recommendations for getting the most from your analysis. *Practical Assessment, Research & Evaluation*, 10, 1-9.
- Creswell, R. (2014). *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches*. USA: SAGE Publications.
- Crotty, M. (1998). *The foundations of social research: Meaning and perspective in the research process*. London; Thousand Oaks, Calif.: Sage Publications.
- Dubin, J. A., Graetz, M.J., and Wilde, L. L. (1992) "State income tax amnesties: Causes" *The Quarterly Journal of Economics*, 107, 1057-1070.
- Duhaime, L. (2000). *Duhaime's law dictionary*. Victoria, Canada: Lloyd Duhaime. Retrieved: <http://www.duhaime.org/LegalDictionary/V/VoluntaryDisclosure.aspx>
- Ernst and Young (2016). *Tax Amnesty 2016: Reduction and waiver of tax penalties*. Retrieved: <https://www.ey.com/Publication/vwLUAssets/ey-take-5-tax-amnesty>.
- Faith, O., Lu, S.G., & Kurlu, E.C.A.S. (2011). Tax amnesty with effects and effecting aspects: tax compliance, tax audits and enforcements around; The Turkish Case. *International Journal of Business and Social Science*, 2(7), 3-4.
- Farrar, J. & Hausserman, C. (2016). An exploratory investigation of extrinsic and intrinsic motivations in tax amnesty decision-making. *Journal of Tax Administration*, Vol. 2(2), 47-66.

- Farrar, J., Hausserman, C., & Dunn, P. (2016). The influence of guilt cognitions on taxpayers' voluntary disclosures. *Business Faculty Publications and Presentations*, 39.
- Fisher, R. C., Goddeeris, J. H., & Young, J. C. (1989). Participation in tax amnesties: the individual income tax. *National Tax Journal*, 42(1), 15-27.
- Franzoni, L. A. (1996). *Punishment and grace: on the economics of permanent amnesties*. Department of Economic Science, University di Bologna, Working Papers, (23.02.2011).
- George, D. & Mallery, P. (2006). *SPSS for Windows-Step by Step: A simple guide and reference (Sixth Ed.)*. USA: Pearson Education Inc.
- Ghazali Darusalam (2005). Kesahan dan Kebolehpercayaan Dalam Kajian Kuantitatif dan Kualitatif. *Jurnal Institut Perguruan Islam*, 61-82.
- Granth Thornton (2017, April 26). *IRB Should Consider Tax Amnesty Instead of much Higher Penalties*. Retrieved from <http://www.granththornton.com.my/press/press-releases-2018>
- Gravetter, F. J., Wallnau, L.B. (2000). *Statistics for the behavioural sciences*, (5th Ed). Belmont, CA: Wadsworth
- Hair, J. F., Tatham, R. L., Anderson, R. E. and Black, W. (2006). Multivariate data analysis (Vol. 6): *Pearson Prentice Hall Upper Saddle River*, NJ.
- Hasseldine, J. (1998). Tax amnesties: An international review. *Bulletin for International Fiscal Documentation*, 52(7), 303-310.
- Heiner Schmittiel (2015). Voluntary Disclosure Programs for Tax Evaders. *Tinbergen Institute Discussion Paper*, No. 15-128/VII, Tinbergen Institute, Amsterdam and Rotterdam.
- Hill, R. (1998). What sample size is "enough" in internet survey research? *Interpersonal Computing and Technology: An Electronic Journal for the 21st Century*, 6 (3-4).
- IRBM (2016, February 10). *Reduction for Penalty for Voluntary Disclosure and Waiver of Tax Increase for the Settlement of Tax Arrears* [Press Release]. Retrieved: http://lampiran1.hasil.gov.my/pdf/pdfam/Media_Release_10022016_reduction_of_penalty_waiver_of_tax_increase.pdf.
- Isaac, S., & Michael, W. B. (1995). *Handbook in research and evaluation*. San Diego, CA: Educational and Industrial Testing Services.
- Kubiszyn, T., and Borich, G., (2000). Educational testing and measurement: classroom application and practice. (Sixth Edition). New York: John Wiley & Sons, Inc.
- Langenmayr, D. (2015). Voluntary disclosure of evaded taxes- increasing revenues, or increasing incentives to evade? *CESifo Working Paper* No. 5349.

- Le Borgne, E. (2006). Economic and political determinants of tax amnesties in the U.S., *IMF Working Paper*, WP/06/222.
- Leonard, H.B. and Zeckhauser, R.J. (1987). *Amnesty, enforcement, and tax policy*. [Online]. Available: <http://www.nber.org/chapters/c10929.pdf>.
- Luitel, H., & Sobel, R. (2007). The revenue impact of repeated tax amnesties. *Public Budgeting & Finance*, 27(3), 19-38.
- Mahestyanti, P., Juanda, B., & Anggraeni, L. (2018). The determinants of tax compliance in tax amnesty programs: experimental approach. *Etikonomi: Jurnal Ekonomi*. Vol. 17 (1): 93 – 110. doi: <http://dx.doi.org/10.15408/etk.v17i1.6966>.
- Marchese, C. and Privileggi, F. (1999). Taxpayers' attitudes toward risk and amnesty participation: economic analysis and evidence for the Italian case. Available at SSRN: <https://ssrn.com/abstract=177590>.
- Marchese, C. (2014). *Tax amnesties*. Italy: IEL paper in Comparative Analysis of Institutions, Economics and Law No.17.
- Marshall, R., Smith, M., & Armstrong, R. (2006). The impact of audit risk, materiality and severity on ethical decision making: An analysis of the perceptions of tax agents in Australia. *Managerial Auditing Journal*, 21(5), 497-519.
- Marshall, J. R., Smith, M., & Armstrong, R. W. (1997). Self-assessment and tax audit lottery: The Australian Experience. *Managerial Auditing Journal*, 12(1), 1-8.
- Mattiello, G., (2005). Multiple Tax Amnesties and Tax Compliance (Forgiving Seventy Times Seven), Università Ca' Foscari, Venezia Working Paper, Connection date: 12.08.2007, <http://www.dse.unive.it/workpapers/0506.pdf>.
- McBurney, D.H. (1994). *Research Methods (3rd Ed.)*. California: Brooks/Cole.
- Mikesell, J.L. (1984). Tax Amnesties as a tool for revenue administration. *State Government* 57, 114-20.
- Mikesell, J.L. (1986). Amnesties for state tax evaders: the nature of and response to recent programs. *National Tax Journal* 39, 507-525.
- Morse, J. M., & Richards, L. (2002). *Read me first for a qualitative guide to qualitative methods*. Thousand Oaks, CA: Sage.
- OECD (2015). Update on voluntary disclosure programs: A pathway to tax compliance. OECD, August 2015. Retrieved from <http://www.oecd.org/ctp/exchange-of-taxinformation/Voluntary-Disclosure-Programmes-2015.pdf>.
- Osman, F.S. & Caskurlu, E. (2011). Tax amnesty with effects and effecting aspects: tax compliance, tax audits and enforcements around; The Turkish Case-*International Journal of Business and Social Science*, 2(7), 95-103.

- Parle, W.M. and Hirlinger, M.W. (1986). Evaluating the use of tax amnesty by state governments. *Public Administration Review*, 46(3), 246-255.
- Pallant, J. (2005). *SPSS Survival Manual: A step by step guide to data analysis using SPSS for Windows (version 12)*. Crow's Nest, NSW: Allen & Unwin.
- Pallant, J. (2007). *SPSS, Survival Manual: A step-by-step guide to data analysis using SPSS Version 15. 3rd edition*. Berkshire: McGraw Hill.
- Patton (2002). M.Q. *Patton Qualitative Research and Evaluation Methods (Third Ed.)*, Sage Publications, Thousand Oaks, CA.
- Polit, D.F., Hungler, B.P. (1999). *Nursing Research: Principles and Methods 6th ed*. Philadelphia: J.B. Lippincott.
- Polit, D. and Beck, C. (2004). *Nursing Research: Principles and Methods (7th edition)* Philadelphia: Lippincott and Wilkins.
- Ramasamy, M, Thurasamy, R, Haron, H. & Ang, J. (2003). Factors influencing compliance behavior of small business entrepreneurs. *Tax Nasional*, 12(1), 20-6.
- Rechberger, S., Hartner, M., Kirchler, E., & Hämmerle, F. (2010). Tax amnesties, justice perceptions, and filing behavior: A simulation study. *Law & Policy*, 32(2), 214-225.
- Ross, J.M., & Buckwalter, N.D. (2013). *Strategic tax planning for state tax amnesties: evidence from eligibility period restrictions*. United State: Indiana University Bloomington.
- Roth, J. A., Scholz, J. T., & Witte, A. D. (1989). *Taxpayer compliance: An Agenda for research*. In (Vol. 1): University of Pennsylvania Press.
- Sapiei, N. S., & Kasipillai, J. (2013). External Tax Professionals' views on compliance behaviour of corporation. *American Journal of Economics* 2013, 3(2), 82-89.
- Saracoglu, O.F and Caskurlu, E. (2011). Tax amnesty with effects and effecting aspects: tax compliance, tax audits and enforcements around; the Turkish case. *International Journal of Business and Social Science*, 2(7), 95-103.
- Schmittiel, H. (2015). Voluntary disclosure programs for tax evaders. *Tinbergen Institute Discussion Papers* 15-128/VII, Tinbergen Institute.
- Sekaran, U., & Bougie, R. (2010). *Research methods for business: A skill-building approach (5th Ed.)*. Haddington: John Wiley & Sons.
- Sia, G-F, Salleh, A., Sambasivan, M & Kasipillai, J (2008). Determinants of Individual Tax Compliance: A Comparative Study on Compliant and Non-compliant Taxpayers, 20th Australian Taxation Teachers' Association Conference, Hobart.

- Stevens, J. P. (2002). *Applied multivariate statistics for the social sciences (4th Ed.)*. Hillsdale, NS: Erlbaum.
- Suroyo, G & Setiaji, H. (2017, March 21) Indonesia tax amnesty nets \$330 billion - owe for reform. *Reuters*. Retrieved from <https://www.reuters.com/article/us-indonesia-economy-tax/indonesia-tax-amnes-nets-330-billion-now-for-reform-idUSKBN16S0AS>.
- Syed Nokman, F. (2017, April 13) Exclusive: IRB 'cheated of billions'. Retrieved from <https://www.nst.com.my/news/nation/2017/04/230018/exclusive-irb-cheated-billions>
- Tabachnick, B. G., & Fidell, L. S. (2007). *Using multivariate statistics (2nd Ed.)*. Boston: Pearson.
- Takril, N. F. B., & Sanusi, S. W. S. A. (2014). An Exploratory Study of Malaysian Tax Practitioners' Perception on the Practice of Aggressive tax Avoidance. In E-proceeding of the Conference on Management and Muamalah (CoMM 2014) *Synergizing Knowledge on Management and Muamalah*, 978-983.
- Tamir, G. (2008). Aspects of successful offshoring projects. Unpublished Masters thesis, San Diego State University.
- Torgler Benno, Schaltegger Christoph A., Schaffner Markus (2003). Is Forgiveness Divine? A Cross-Culture Comparison of Tax Amnesties. *Zeitschrift für Volkswirtschaft und Statistik*, 139, 375–396.
- UYS, H.H.M. & Basson, A.A. (1991). *Research methods in nursing*. Pretoria: Educational Publishers (Haum).
- Wang, Y. K. and Hsieh, W. J. (2015). Is tax amnesty good for the tax evader? Taiwan: *British Journal of Economics, Management & Trade*, 6 (4), 308-322.



UUM

Universiti Utara Malaysia

Survey Questionnaire

Dear Respondent,

I am conducting a *study on reasons contributing to taxpayer participation in voluntary disclosure programme in Malaysia from tax professionals' perspective*. Voluntary Disclosure Programmes (VDP) also known as Tax Amnesties provides taxpayers with a potential avenue to rectify error or omissions in past tax returns without being subject to some or all of the financial and criminal penalties.

Therefore, I am happy to inform you that you have been chosen to participate in this survey.

Please be advised that there is no right or wrong answer, only your views and opinions on each of the statements are required. Your responses are highly critical in achieving the objectives of this study. I assure you that confidentiality of your answer and the data collected will be used only for the purpose of this study. Please answer all questions.

In case you may require further information regarding this study, please contact me at:

Mr. Balamurugan— 0127990626 / e-mail: balamurugan@hasil.gov.my.

Thank you for sparing your precious time.

Yours Sincerely,

S. Balamurugan

BALAMURUGAN SINAPAYAN

Student, M.Sc. International Accounting
Universiti Utara Malaysia

Section 1: DEMOGRAPHIC DATA: Respondent's profile.

Please (✓) in the appropriate box.

- 1: **Gender** : Male ☐ Female ☐
- 2: **Age (Years)** : 20-30 ☐ 31-40 ☐ 41 and above ☐
- 3: **Qualification** : Diploma ☐ Degree ☐ Professional Qualification ☐ Masters/Phd ☐
- 5: **Location** : Johor Bahru ☐ Kuala Lumpur ☐ Other : _____ ☐
(If other, please specify)
- 6: **How many years have you been working in this organization?**
1-5 ☐ 6-10 ☐ 11-15 ☐ 16-20 ☐ above 20 ☐
- 7: **Have you ever handle a VDP case?** Yes ☐ No ☐
If yes, how many cases? _____ case(s).

Section 2: Assessment on factors contributing to VDP participation. Please respond to the following statements by circling the appropriate option:**1-Strongly Disagree, 2-Disagree, 3- Neutral, 4-Agree, 5-Strongly agree.****2.1 Size of penalty reduction**

No	Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1.	The size of penalty reduction is important in VDP implementation.	1	2	3	4	5
2.	Current penalty structure offered by IRBM for VDP is very attractive to influence more taxpayers to participate.	1	2	3	4	5
3.	VDP in Malaysia will be more effective if the size of penalty reduction is higher.	1	2	3	4	5

2.2 Fear of detection and punishment

No	Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1.	The probability to detect mistakes/omissions by IRBM is low.	1	2	3	4	5
2.	Taxpayers who have greater fear of detection will likely to participate in VDP.	1	2	3	4	5
3.	Taxpayers will participate in VDP if IRBM enforcement activities are enhanced.	1	2	3	4	5

2.3 Risk of further audit

No	Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1.	IRBM will further audit the voluntary disclosures submitted by taxpayers in VDP.	1	2	3	4	5
2.	The fear of further audit discourages taxpayers from participating in VDP.	1	2	3	4	5
3.	If IRBM accepts the disclosures made by taxpayers without further audit, more taxpayers will participate in VDP.	1	2	3	4	5

2.4 Promotion efforts by IRBM

No	Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1.	VDP has been promoted intensively to taxpayers.	1	2	3	4	5
2.	Taxpayers are well aware of VDP implemented by IRBM.	1	2	3	4	5
3.	IRBM should increase promotion of the VDP in order to attract and encourage taxpayers to participate.	1	2	3	4	5

Section 3: Suggestions

Please provide suggestions to improve VDP participation in Malaysia.

THANK YOU FOR YOUR COOPERATION



UUM
Universiti Utara Malaysia